

1 BEFORE THE PUBLIC SERVICE COMMISSION

2 STATE OF MISSOURI

3 _____
4 TRANSCRIPT OF PROCEEDINGS

5 HEARING

6 APRIL 18, 2007

7 Jefferson City, Missouri

8 Volume 2

9 _____
10 In the Matter of the Petition)
11 of VCI Company for Designation)Case No. CO-2006-0464
12 as an Eligible Telecommunications)
13 Carrier)

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16 HAROLD STEARLEY, Presiding
17 REGULATORY LAW JUDGE.

18 CONNIE MURRAY,
19 LINWARD "LIN" APPLING,
20 COMMISSIONERS.
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20 REPORTED BY:
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1 P R O C E E D I N G S

2 JUDGE STEARLEY: Good Morning. Let's
3 bring this hearing to order. Today is Wednesday, April
4 18th, 2007 and we are here for a evidentiary hearing in
5 Case No. CO-2006-0464, in the matter of the petition of
6 VCI Company for designation as an eligible
7 telecommunications carrier. My name is Harold
8 Stearley, presiding over this matter. The court
9 reporter this morning is Lisa Banks. And we will begin
10 by taking entries of appearance beginning with Staff.

11 MR. MEYER: Good morning. David Meyer
12 on behalf of the Staff of the Missouri Public Service
13 Commission. Our address is P.O. Box 360, Jefferson
14 City, Missouri, 65102.

15 JUDGE STEARLEY: Thank you, Mr. Meyer.
16 The Office of Public Counsel?

17 MR. DANDINO: Thank you, your Honor.
18 Good Morning. Michael Dandino, Deputy Public Counsel
19 for the Office of Public Counsel, P.O. Box 2230,
20 Jefferson City, Missouri, 65102, representing the
21 Office of Public Counsel and the public.

22 JUDGE STEARLEY: Thank you,
23 Mr. Dandino. VCI Company?

24 MR. STEINER: Good Morning. Roger W.
25 Steiner on behalf of the VCI Company. My address is

1 4520 Main Street, Kansas City, Missouri 64111.

2 JUDGE STEARLEY: Thank you,

3 Mr. Steiner. And AT&T?

4 MR. GRYZMALA: Good morning, your Honor.

5 Bob Gryzmala appearing on behalf of Southwestern Bell
6 Telephone, LP, d/b/a AT&T Missouri, at One AT&T Center,
7 Room 3516, St. Louis, Missouri 63101.

8 JUDGE STEARLEY: Thank you,

9 Mr. Gryzmala. Just a reminder, I ask that you all be
10 sure that you all have your cell phones and
11 Blackberries turned off. They do actually interfere
12 with our recording and occasionally our webcasting.
13 They changed our preset on our -- on what they are
14 actually distributing over the web, and I have actually
15 had a case where I missed a whole day's worth of
16 recording because of various interferences, it goes
17 off.

18 A few preliminary matters: Do we have a
19 large number of exhibits today? Do we need to pre-mark
20 or do you all feel that we can just mark as we go
21 along?

22 MR. STEINER: I have two exhibits. Just
23 testimony.

24 MR. GRYZMALA: AT&T has two.

25 JUDGE STEARLEY: Okay. It sounds like

1 we can just mark exhibits as we go along then. I have
2 that opening statements will occur in the following
3 order: VCI Company, OPC, Staff, AT&T Missouri. And we
4 are expecting for witnesses today, Mr. Stanley Johnson
5 from VCI Company, Walt Cecil from the Staff of Missouri
6 Public Service Commission and James Stidham from AT&T;
7 is that correct?

8 MR. MEYER: That's right.

9 JUDGE STEARLEY: All right. I am
10 planning that we will be -- I am not sure if we are
11 going to need a full two days for the hearing. We are
12 scheduled for two days. If we do resume tomorrow, I
13 just wanted to advise you all that it will be in
14 Hearing Room 305 tomorrow. And also if we resume
15 tomorrow, we will be taking approximately an hour
16 recess for the Commission's regularly scheduled agenda,
17 which I will need to be at. So we will kind of see how
18 things go today though, it might be that we finish up
19 today as well.

20 Are there any other preliminary matters
21 I need to address at this time?

22 All right. We will take a very short
23 intermission. I will see if any of the other
24 Commissioners are going to join us and we will go back
25 on the record here in about five minutes.

1 (A RECESS WAS TAKEN.)

2 JUDGE STEARLEY: All right. We are back
3 on the record and we will begin with opening
4 statements, starting with VCI Company. Mr. Steiner?

5 MR. STEINER: Thank you, your Honor.
6 May it please the Commission, my name is Roger Steiner.
7 I am here today representing the applicant, VCI
8 Company. With me is Stanley Johnson, who is the
9 co-owner and president of VCI. This case is about
10 VCI's request to be granted eligible telecommunication
11 carrier status, so that it can receive support from the
12 low-income portion of the Federal Universal Service
13 Fund. VCI is not requesting high-cost support, only
14 low-income support. And the Commission should recall
15 that high-cost support makes up the majority of the
16 Federal Universal Service Fund. And also keep in mind
17 that high-cost support makes up the majority of the
18 controversies regarding the growth of the Federal
19 Universal Service Fund.

20 Now, VCI is a Washington-based company
21 with about 65 employees that provides local service in
22 ten states to approximately 50,000 customers. VCI
23 focuses on low-income customers and for this reason
24 needs ETC status so that it can obtain federal support
25 for Lifeline and Link Up discount on basic local

1 service to Missouri customers. VCI is a UNE-based
2 carrier and does not have its own network.

3 Now, there is no issue today that VCI
4 will provide all the services necessary to be granted
5 ETC status. The Staff has concluded that VCI will
6 provide all of the necessary services such as 911 and
7 operator services. There is no issue that VCI will
8 advertise these services and provide them with its own
9 facilities as required by federal law. Staff has
10 concluded that VCI meets the Commission ETC rule
11 requirements.

12 AT&T is opposing VCI's application
13 because they allege that VCI does not meet all the
14 provisions of the Commission ETC rule. First AT&T
15 believes that VCI, which as I told you before doesn't
16 own its own network, must agree to extend its network
17 to service new customers and outline this method for
18 handling unusual construction charges.

19 Now, as I told you before, VCI does not
20 have a network, so we believe that this contention is
21 absurd. How can VCI extend its network when it has no
22 network to extend? It relies completely on AT&T's
23 network. We see this as just an excuse by AT&T to deny
24 VCI's application. AT&T and Public Counsel also argue
25 that VCI's local usage plan is not comparable to AT&T.

1 this is not the case. VCI offers a local usage that
2 permits customers unlimited local calling throughout
3 their local calling areas, as does AT&T, and throughout
4 the same local calling areas as AT&T.

5 Now, it is true that VCI's rates are
6 higher than AT&T's. But higher rates does not mean
7 that the local usage plan is not comparable or that the
8 Commission's or the FCC's ETC requirements have not
9 been satisfied. If you think about it, it would be
10 very unlikely that a SLEC, such as VCI, would have
11 rates similar to a true facility-based LEC such as
12 AT&T. These are vastly different companies with
13 different cost structures, different histories.

14 We would like to note that the FCC has
15 never required the rate of an ETC applicant to be the
16 same as the ILEC. I would also like to point out that
17 this Commission in its notice of rulemaking for the ETC
18 rule indicated that the local usage requirement would
19 be determined on a case-by-case basis. In this case,
20 the Commission should find the VCI service offering
21 comparable with AT&T.

22 You may also hear from AT&T about its
23 belief that VCI must file a forbearance petition at the
24 FCC before the Commission can rule on this application.
25 Now, this legal issue will be dealt with thoroughly in

1 the post-hearing brief. But we believe this is another
2 delaying tactic by AT&T. As I mentioned before, VCI
3 currently provides service in 10 states and is
4 currently receiving low-income support in those states,
5 and it has never filed a petition for forbearance at
6 the FCC.

7 If you think about what they are asking
8 VCI to do, it does not make sense. AT&T wants VCI to
9 ask the FCC not to enforce its high-cost rules, such as
10 providing a network build-out plan against VCI, which
11 does not have a network to build out. This Commission
12 has the authority without any special guidance from the
13 FCC to determine that VCI meets the applicable Federal
14 and State ETC requirements.

15 AT&T also argues that it is not in the
16 public interest to grant the VCI's application. I
17 believe the evidence clearly establishes that the
18 public interest will be furthered by granting the
19 application. Low-income customers, especially those
20 who cannot obtain service from any other carrier, will
21 have a viable option for obtaining Lifeline and Link Up
22 services.

23 Staff has recognized that VCI will
24 provide a useful alternative for customers that are
25 unable to establish service with AT&T. VCI knows

1 customers like this that need these alternatives to
2 exist because it has served up to 50,000 of them in
3 other states. The majority of SLECs offering service
4 today in AT&T service territory do not offer Lifeline
5 Link Up discounts. VCI will therefore provide an
6 alternative for customers that does not exist in
7 Missouri today.

8 In light of these facts, I would urge
9 the Commission to expeditiously grant the application.

10 JUDGE STEARLEY: Thank you,
11 Mr. Steiner. I will now have opening statements from
12 the Office of Public Counsel, Mr. Dandino.

13 MR. DANDINO: Thank you, your Honor.
14 May it please the Commission, I think the best way to
15 summarize what the Public Counsel's position in this
16 case is, is some reservation. I think we have a
17 considerable amount of reservation about granting ETC
18 status to VCI.

19 Public Counsel is not persuaded by the
20 evidence that VCI has submitted. I think that it is --
21 Public Counsel believes that the statements in their
22 testimony are more geared to conclusions rather than
23 being facts on how exactly the company's going to
24 deliver services and also how they are going to comply
25 in all respects with the ETC regulations, both the

1 Federal and the State.

2 Often I think you will see the evidence
3 and that the answers to some of the questions and the
4 testimony was just a restatement of the question in an
5 indication of, Yes, we will do this or, No, we will do
6 this, which doesn't add to the evidence, the
7 information, the compliment of substantial evidence
8 this Commission needs to make the ultimate
9 determination to decide these facts.

10 You are going to need the underlying
11 facts to reach the conclusions, and I think you've only
12 been handed conclusions. I think based upon the
13 evidence that VCI has presented, I believe this
14 Commission is left to speculate as to how giving VCI
15 ETC status will truly benefit the low-income customers
16 and serve the public interest.

17 The Public Counsel, we did state in our
18 statement of position that we were concerned about a
19 prepaid provider being given ETC status. We did note
20 that -- that in the industry the prepaids are often
21 called telephone sharks. We are not accusing VCI of
22 any -- any -- I just lost -- I was going to say bad
23 practices. They're not a bad actor as far as we can
24 tell, and I think the information is that they have not
25 been subject to any disciplinary proceedings in other

1 states.

2 But whether VCI is a telephone shark or
3 a minnow, we want to make sure that they're at least a
4 customer-friendly dolphin. And we want them to be able
5 to show that they are servicing the low-income customer
6 in a fair and equitable manner and a fair and just
7 manner. And I think that's the issue that falls within
8 the cloak of public interest.

9 I think, also, if you look at the
10 Staff's evidence, Staff's evidence doesn't help Public
11 Counsel satisfy its reservations about this
12 application. Staff's own testimony raises doubts that
13 VCI's prices are within the notion of what's in the
14 public interest. That is quite troubling. The Staff
15 doesn't believe the prices are, but they turn and
16 recommend the approval. Public Counsel has very
17 serious reservations about the approval of this
18 application.

19 Another aspect of it -- and maybe
20 perhaps this is how public or Staff came to this
21 conclusion -- is that they did not compare VCI prices
22 to AT&T's, the ILEC which they will be competing with.
23 But they compared it with other prepaid providers.
24 Saying that, well, we are -- essentially saying that
25 they're not as bad as the other prepaid customers --

1 other prepaid companies and that is faint praise.

2 Mr. Steiner had said that there is no
3 question about whether they are providing the services
4 for USF. Public Counsel would indicate that -- in our
5 position statement we did state that we don't think
6 there is sufficient evidence to show that VCI is
7 providing equal access to customers for a provider of
8 choice for long distance and toll service, operator
9 service and directory assistance.

10 It is not very clear on how they are
11 going to do this or whether they have said that they
12 will do this. I think it just comes down to whether
13 there is just too many unanswered questions. And I
14 don't think and Public Counsel at this time does not
15 believe that they can support this position or this
16 application because we are not sure how and in what
17 manner VCI will perform this eligible
18 telecommunications company's obligations and serve the
19 public so that the low-income customer is eligible for
20 USF.

21 Thank you, your Honor.

22 JUDGE STEARLEY: Thank you,
23 Mr. Dandino. Opening statements from Staff.
24 Mr. Meyer?

25 MR. MEYER: Good morning. Staff

1 supports VCI's application for ETC status limited to
2 Lifeline and Link Up discounts. VCI meets the
3 requirements the Commission has set forth in its rules.
4 VCI with the characteristics of a prepaid
5 telecommunication service provider will bring
6 additional competition and choice to Missouri's
7 low-income consumers.

8 Walt Cecil is here to discuss Staff's
9 analysis of VCI's application relative to the
10 Commission's rules. And his belief is that the company
11 has agreed to comply with all the requirements in the
12 Commission's rules including; the requirements that the
13 company provide a local usage plan with unlimited
14 callings -- I am sorry -- the company's commitment to
15 provide a local usage plan with unlimited calling in
16 local area for a flat monthly fee. That addresses the
17 comparability concept that I think you will hear about
18 more today. The company's commitment to meet billing
19 standards and provide easily interpreted customer
20 bills; providing customer service contact information;
21 providing or maintaining customer complaint records,
22 notifying changes in customer contact information.

23 As you may be aware, the Commission has
24 not previously addressed an application of this nature
25 before. Some of the challenges to the application are

1 legal in nature and I would be happy to discuss those
2 topics. You may hear discussion and have actually
3 already in the opening statements, referencing the
4 Tracfone FCC decision of 2005. That decision can be
5 found at 20 FCCRCD, all one word, 15095 in Westlaw. I
6 would certainly recommend a review of that decision.
7 To our knowledge, this is the only FCC decision
8 granting ETC status to a telecom carrier at the FCC
9 level for Lifeline only and not for high cost.

10 You make your suggestions that that case
11 where the FCC granted forbearance of its requirement
12 that a company provide service in whole or in part
13 through its own facilities somehow requires that this
14 company, VCI, should have gone to the FCC for the
15 determination that it is now seeking from you. I
16 suggest that is not the point of the case at the FCC
17 level. It is worthy to note that in that case, the FCC
18 did grant Lifeline ETC status detached from the
19 high-cost requirement. In fact, it didn't even grant
20 Link Up authority because the company, Tracfone, in
21 that case did not seek that authority.

22 Actually reading the decision, it
23 becomes clear that that aspect of the decision was not
24 the focus of the FCC decision or basis of the company's
25 petition to the FCC. While not -- it was not the

1 depository aspect case, it was not why a Tracfone was
2 there. Tracfone went to the FCC to seek forbearance
3 from the facility's base requirement.

4 That is not an issue in this case. VCI
5 will be using UNE-P, has indicated that it plans to use
6 UNE-P to provide its service and that meets the
7 facility-based requirement. Thus while the Tracfone
8 case, which is our main legal precedent, if you can
9 call it that, that we have in our universe here -- it
10 actually, in fact, supports the application and the FCC
11 found that Lifeline, Link Up, ETC status could be
12 granted without the high-cost component, and did not
13 feel that there was any kind of mandate that the two be
14 linked together. But that decision certainly does not
15 preclude you from making any kind of decision in this
16 case. The FCC does not preempt you. There is no
17 requirement for the company to go to the FCC or the
18 forbearance petition in the nature of the case as it is
19 brought here.

20 In conclusion, Staff believes that the
21 application should be granted because the company has
22 agreed to meet the Commission's requirements and
23 because it's in the public interest, meeting the
24 factors that the FCC has set forth. There are three
25 main points that the Commission is to consider in that

1 analysis; the benefits of increased customer choice or
2 consumer choice; the impact of the designation on the
3 Universal Service Fund; and the unique advantages of
4 the competitor service offering. For those reasons,
5 Staff does approve the petition in this case.

6 Thank you.

7 COMMISSIONER MURRAY: Mr. Meyer, would
8 you give that cite again please?

9 MR. MEYER: Certainly, it is available
10 in Westlaw, which is where I pulled it up. If you just
11 go in and just type in "find document 20FCCRCRCD 15095."
12 I have not found any decision subsequent to that, that
13 they have cited. As far as I know, that is the only
14 case there is.

15 COMMISSIONER MURRAY: Thank you.

16 MR. MEYER: Sure.

17 JUDGE STEARLEY: Thank you, Mr. Meyer.
18 Opening statements, AT&T Missouri. Mr. Gryzmala?

19 MR. GRYZMALA: Thank you, your Honor.
20 Good morning, Commissioner Appling. Good morning,
21 Commissioner Murray. Thank you for the opportunity to
22 appear before you. There are elements of truth in all
23 of the opening statements made by counsel this morning.
24 However, we submit at AT&T that this case requires the
25 Commission to ask some very hard questions of this ETC

1 applicant.

2 The questions are even more important
3 now than when we last saw each other with regard to the
4 prior ETC cases for MO-5 and Northwest and US Cellular,
5 what with the new adjustment in the Missouri USF funds
6 surcharge to our customers in Missouri from .18 percent
7 up to .29 percent.

8 Issues regarding the extent to which the
9 fund had been properly administered in the state,
10 potential new rulemaking coming down the pike that may
11 have to do with tightening the provisions with respect
12 to self-certification for low-income recipients, none
13 of the applications, I believe as Mr. Meyer accurately
14 pointed out, have the same character as this one. VCI
15 is not a wireless company. It is a wireline company.
16 It is not a company with facilities in the ground. It
17 has no facilities in the state. It has no employees in
18 the state. It has no track record in the state.

19 It is seeking low-income support, not
20 high-cost rural support. Apart from the fact that we
21 appreciate that the high-cost concerns with regard to
22 the -- with regard to the sustainability of the -- of
23 the Universal Service Plan predominate or, as I believe
24 Mr. Steiner put it, they are -- they constitute the
25 majority of the concern, that is not to suggest that we

1 ought to ignore the pressures brought to the
2 sustainability of the fund because of the low-income
3 side.

4 All of these differences force us to
5 consider the areas where the hard questions must be
6 answered before the Commission grants VCI ETC status,
7 because these are areas not explored before. Two com--
8 excuse me. Two key Commission rules, they are not just
9 rules but hard-core policy issues are at the center of
10 this case. The first one has to do with Subpart 2A-10
11 of the Commission's rule, which is 3.570, and it states
12 point blank with regard to the local usage commitment
13 that Mr. Steiner talked about.

14 That quote, the commitment -- or rather,
15 such commitment of an ETC occupant, quote, Shall
16 include a commitment to provide Lifeline and Link Up
17 discounts and Missouri Universal Service Fund discounts
18 pursuant to the rule if applicable, quote within a
19 quote, Emphasize at rates, terms and conditions
20 comparable to the Lifeline and Link Up offerings in
21 Missouri USF offerings of the ILEC providing service in
22 ETC service area.

23 The second is the Commission's public
24 interest rule, which is Part 2A-5 of the Rule 3.570,
25 which requires that the applicant demonstrate that the

1 of \$19 a month the \$10 that it would charge
2 customers -- you'll hear evidence that their connection
3 fee after Link Up discount is applied is about \$120.
4 They allow their customers to spread that out over 12
5 months. If you do the math, that amounts to \$10 per
6 month tacked on top of the \$19 per month. That gets
7 you to \$29 a month. Those ranges that we talked about
8 become even wider. There are way more dramatic. And
9 the percentage differences as well. The rate
10 differentials are not even close. Are these rates in
11 the public interest? We need to ask those hard
12 questions.

13 Now, VCI says it removes obstacles to
14 service for those who are otherwise unable to get
15 service because of perhaps final bills that remain
16 unpaid from underlying carriers, other carriers than
17 VCI or because of deposits that may present obstacles
18 to low-income folks. We appreciate those concerns, but
19 we need to look and ask the hard questions. Neither
20 VCI nor AT&T nor any other carrier can even request a
21 deposit when the customer agrees to toll limitation.
22 So that issue is really a non-issue where the customer
23 agrees to toll limitation. And frankly, I think the
24 evidence is fairly clear; the only reason VCI doesn't
25 take in a deposit because it doesn't need to. It

1 doesn't offer long distance service, your Honor.

2 And depending upon how the proof
3 unfolds -- it is unclear on this point -- as to whether
4 they require the customer to pay monthly rates in
5 advance. Well, if you are asking customers, requiring
6 customers to pay monthly rates in advance and you don't
7 offer long distance, you don't need a deposit. So the
8 deposit argument to obstacles at low-income is somewhat
9 of a red herring.

10 As to unpaid bills, ask VCI a hard
11 question. If a customer owes you money, will you
12 reconnect that customer without requiring the final
13 bill to be paid? Or will you require that final bill
14 be paid first? Listen carefully to the answer. And if
15 a customer is able to leave one carrier to whom that
16 customer does owe money to another like VCI, is it in
17 the public interest to allow that first carrier's final
18 bill to languish? Is it fair to that first carrier's
19 other customers or fair to that carrier?

20 VCI also claims granting it ETC status
21 would advance the universal service. I think Missouri
22 has a lot to be proud of. The empirical data that is
23 most available or most recently available now indicates
24 point blank from the FCC's Wireline Competition Bureau
25 that in the State of Missouri telephone penetration

1 rate stands at 96.5 percent. That is outstanding.
2 Well above the 94.6 national average and the average of
3 most states.

4 In any event, there is no evidence in
5 this record supporting the proposition that VCI service
6 offerings would help drive up the penetration rate of
7 telephone service in this state. I don't believe there
8 is any evidence in record to suggest the notion that in
9 states where VCI does offer service that the
10 penetration rate has gone up in any degree as the
11 result of the offering of that service by VCI. There
12 is no evidence in the record to support that VCI has
13 done that or will deliver that to the State of
14 Missouri.

15 And as we pointed out, as no one
16 disputes, VCI has no employees here, no facilities.
17 All its customer or customers make all their payments
18 to Washington. They state in their application that
19 they won't begin offering service until at least eight
20 months after they receive ETC status, so they have no
21 track record but only a promise that later down the
22 road, if they like what they see in the Commission
23 order, they may come around and actually order service
24 or provide service. Ask the hard questions. Why did
25 you take eight months to deliver service if this

1 Commission -- if you are asking this Commission to give
2 you public funding?

3 Staff makes a few points with regards to
4 its rebuttal. I would like to spent a moment with
5 them. I think there are four key points in Staff's
6 testimony that we should look at and ask some hard
7 questions. Staff understands that the company does not
8 give any track record. It appreciates that the company
9 doesn't plan to offer service until approximately eight
10 months after it receives its ETC status. Staff
11 concedes that service subscription fees at the level
12 proposed by VCI may not be in the public interest for
13 Lifeline customers. Staff said that. Staff said,
14 press releases have indicated that VCI is ceasing to
15 provide service in two of its markets.

16 So Staff appreciates that it is very
17 possible that Staff could -- or that VCI could likewise
18 stop offering service in Missouri after it receives ETC
19 status. Staff says if VCI is granted ETC designation
20 in Missouri and then decides to cease offering service,
21 Staff has several questions on how the service
22 subscription fee will be handled. Ask the hard
23 questions. I didn't see the answers.

24 Notwithstanding all of these
25 reservations, the Commission or the Commission Staff

1 suggest that the application should be granted. We
2 disagree. In closing, we ask it again that the
3 Commission ask the hard questions and not avoid them.
4 They revolve around VCI's rates, public interest,
5 question about support flows to the extent that VCI
6 will draw from AT&T on the basis of the UNE-P or
7 network elements or resale. There are questions,
8 because obviously they stem from the fact there are no
9 facilities in the ground for VCI. So they won't
10 necessarily draw off of our services.

11 At the end of the day, the question
12 comes down to whether granting this application is
13 wise, given recent concerns involving fund
14 administration, surcharge increases, self-certification
15 process and very importantly, the Federal fund whose
16 size appears to be going and going and going, in part
17 due to low-income support granted to competitor
18 carriers.

19 We urge the Commission to ask the hard
20 questions of this applicant. Thank you.

21 JUDGE STEARLEY: Thank you,
22 Mr. Gryzmala. Before we call our first witness,
23 Commissioners, do you have any other questions for the
24 attorneys?

25 COMMISSIONER MURRAY: No.

1 COMMISSIONER APPLING: We will catch up
2 with them.

3 JUDGE STEARLEY: Mr. Steiner, you may
4 call your witness.

5 MR. STEINER: VCI calls Stanley Johnson.

6 JUDGE STEARLEY: And, Mr. Johnson, if
7 you will please raise your right hand, I will swear you
8 in.

9 (Witness sworn.)

10 JUDGE STEARLEY: Mr. Steiner?

11 MR. STEINER: I am going to mark some
12 exhibits.

13 JUDGE STEARLEY: Certainly.

14 MR. STEINER: I have the direct
15 testimony of Stanley Johnson and the surrebuttal
16 testimony of Stanley Johnson.

17 JUDGE STEARLEY: We will mark direct as
18 Exhibit No. 1 and surrebuttal as Exhibit 2.

19 (EXHIBITS NUMBERS 1 AND 2 WERE MARKED
20 FOR IDENTIFICATION BY THE COURT REPORTER.)

21 JUDGE STEARLEY: You may proceed,
22 Mr. Steiner.

23 STANLEY JOHNSON testified as follows:

24 DIRECT EXAMINATION BY MR. STEINER:

25 Q. Please state your name for the record.

1 A. Stanley Johnson.

2 Q. Mr. Johnson, what do you do?

3 A. I am the president of VCI Company.

4 Q. Did you cause to be prepared surrebuttal
5 and direct testimony, which has been marked as Direct 1
6 and Surrebuttal 2, in this case?

7 A. Yes, I did.

8 Q. Do you have any corrections to that
9 testimony?

10 A. I do not.

11 Q. If I were to ask you the same questions
12 that are in, what's been marked as Exhibit 1 and 2,
13 would your answers be the same?

14 A. Yes, it would.

15 Q. Are the answers contained in Exhibit 1
16 and 2 true and correct to the best of your information,
17 knowledge and belief?

18 A. Yes, it is.

19 MR. STEINER: Your Honor, I would like
20 to move for admission of Exhibits 1 and 2 and tender
21 Mr. Johnson for cross-examination.

22 JUDGE STEARLEY: Any objections to the
23 admission of Exhibits 1 and 2?

24 Hearing none, they shall be received and
25 admitted into evidence.

1 (EXHIBITS NUMBERS 1 AND 2 WERE RECEIVED
2 INTO EVIDENCE.)

3 JUDGE STEARLEY: And we will begin with
4 cross-examination by Staff. Mr. Meyer?

5 MR. MEYER: Do you want me to stay here
6 or go up there?

7 JUDGE STEARLEY: It's your preference,
8 Mr. Meyer. I have the camera on Mr. Johnson, so...

9 MR. MEYER: Okay. I will just stay down
10 here.

11 CROSS-EXAMINATION BY MR. MEYER:

12 Q. Good morning.

13 A. Good morning.

14 Q. Mr. Johnson, do you have a copy of your
15 surrebuttal testimony handy?

16 A. Yes. One second. Yes, I do.

17 Q. Could you turn to Page 6 of that
18 surrebuttal testimony?

19 A. Yes, I am there.

20 MR. MEYER: May I approach, please?

21 JUDGE STEARLEY: Yes, you may.

22 BY MR. MEYER:

23 Q. Mr. Johnson, I've handed you a copy of a
24 DR response that we had received from you. And my
25 question is: In your testimony you had indicated that

1 at the top of that Page 6, running through the
2 discounts, a company discounted \$3.88, et cetera, the
3 calculations that the rates would end up being \$19; is
4 that correct?

5 A. That's correct.

6 Q. And in your information that you had
7 previously provided to us, that was not the number you
8 had provided to us. Could you explain that difference?

9 A. Sure. VCI's initial calculations had a
10 Federal access charge of \$6.50. And in Missouri the
11 SLC or the SLC is actually \$5.67. So that caused a
12 discount, a less discount than what we initially put
13 into our testimony.

14 Q. I am not sure if that is the full amount
15 of the difference between the two numbers that we had
16 been provided.

17 A. One second.

18 Q. I guess I can make my question a little
19 bit more specific, that may help a little bit. The
20 number you provided -- which I think was not HC.

21 A. No.

22 Q. The number that you had provided Staff
23 in the DR was response was \$22.99, and the number that
24 we are looking at in your testimony is \$19. The
25 difference in that is \$3.99. So, at the, at the -- and

1 if you look on there, it also has a reference to the
2 company discount being \$3.99?

3 A. Correct. Any you're asking --

4 Q. Can you explain -- is the \$3.99 being
5 counted twice in one or not in the other or what
6 exactly is going on here?

7 A. Okay. Give me one second to --

8 Q. Sure.

9 A. What I'd like to do is walk through how
10 we calculate our rates.

11 Q. I think that may be helpful.

12 A. And then I can answer the question that
13 way, there. Our basic service retail is \$29.99.
14 That's without the SLC charge, or the SLC charge, which
15 in Missouri is 5.67. It comes to roughly 35.66 or
16 35.67. Okay. Now, we take all the discounts that we
17 give the consumer. Here's at-- well, and not the other
18 state and 911 taxes. But consumer has a \$35.66 bill,
19 now we will start to discount all the items.

20 Tier 2 is a \$1.75. State reimbursement
21 is a \$3.50. Additional federal discount \$1.75. And
22 also they cover SLC charge as well. So that gets us to
23 12.67, subtract 2 -- and then we have the company
24 discount of \$3.99, gives us \$19 even.

25 Q. Okay. So then is it possible that the

1 DR response that you provided us was not -- has
2 subsequently become incorrect?

3 A. I looked at the DR response, I don't
4 follow it because the discount is not \$13.50. That's
5 how I read it. It's not \$13.50. That is not the total
6 amount of the discount, is how I read this.

7 Q. Okay. Are you familiar with the
8 company's post tariffs? I think are the tariffs in
9 effect? I believe the company has tariffs in effect
10 right now.

11 A. Yes.

12 Q. Do you know, is that \$3.99 company
13 discount reflected in those tariffs?

14 A. Just a second.

15 Q. I might be able to speed things along.
16 If that \$3.99 is not reflected in the company's tariff,
17 would the company commit to putting that \$3.99 in the
18 tariffs --

19 A. Absolutely.

20 Q. -- before providing service?

21 A. Absolutely.

22 Q. To your knowledge, has the USAC or the
23 FCC ever questioned VCI's status in other states of its
24 designation of an ETC carrier without the high-cost
25 component?

1 A. Not to my knowledge. No.

2 Q. And have you ever been denied money out
3 of the Universal Service Fund as a result of that
4 designation?

5 A. No, we have not.

6 Q. Are there any states right where VCI has
7 applications pending, but they have not been ruled
8 upon, other than Missouri, for this kind of
9 investigation?

10 A. One second here.

11 Q. As of today?

12 A. We do have applications pending and I
13 believe it is in three states: Alabama, Mississippi,
14 Philadelphia.

15 Q. Pennsylvania?

16 A. Pennsylvania. Yes, sir.

17 Q. And are any of those cases proceeding in
18 a contested matter with hearings and challenges?

19 A. No.

20 Q. So to your knowledge is Missouri the
21 only State where you have had a contested case, such as
22 what we are having today?

23 A. Yes, it is.

24 MR. MEYER: Okay. That's all.

25 JUDGE STEARLEY: Thank you, Mr. Meyer.

1 Cross-examination of Office of Public Counsel,
2 Mr. Dandino?

3 MR. DANDINO: Thank you, your Honor.

4 CROSS-EXAMINATION BY MR. DANDINO:

5 Q. Good morning, Mr. Johnson.

6 A. Good morning.

7 Q. Is this the first time you've testified
8 before the Missouri Public Service Commission?

9 A. Yes, it is.

10 Q. Welcome to Missouri. I have a few
11 questions, just to kind of cut through. I was trying
12 to go back through your calculations. And I am coming
13 up with \$16 -- whoops, I am sorry. Once again, what is
14 the rate? If I come in and want to get a Lifeline
15 rate --

16 A. Uh-huh?

17 Q. -- how much is VCI going to charge?

18 A. \$19 a month.

19 Q. \$19 even?

20 A. Correct. Well, not including some of
21 the 911 taxes and a few other things.

22 Q. So you would add to the 911 --

23 A. The 911, state, city taxes and other
24 taxes associated with your state.

25 Q. Standard taxes that any company would

1 charge?

2 A. Absolutely.

3 Q. Now, what type of installation fee would
4 you charge?

5 A. We have an installation fee for Lifeline
6 consumer that would be \$150. \$30 is paid by USAC or
7 the FCC. There's \$120 balance, that is divided over 12
8 months.

9 Q. So then the customer's outlay, excluding
10 taxes and 911, would be \$29 a month --

11 A. For the first year.

12 Q. -- for the first year.
13 And then after that --

14 A. \$19.

15 Q. -- would be \$19.
16 And that is just the basic service.

17 Correct?

18 A. Absolutely.

19 Q. Now, how does that compare to your
20 normal rates? So if I go in there and I want basic
21 service, I am a Lifeline customer, I get a \$19. How
22 much do I pay if I'm a regular customer?

23 A. \$29.99.

24 Q. And I have to pay -- how much is a
25 subscriber fee or is it a installation fee?

1 A. \$300 for retail customer or \$25 a month.

2 Q. Is it payable monthly?

3 A. Absolutely.

4 Q. Okay.

5 A. Absolutely.

6 Q. So, we're roughly looking at \$55?

7 A. Correct. Before taxes.

8 Q. What other -- I guess you would call

9 them custom services or additional vertical services,

10 do you offer?

11 A. We offer call waiting, caller ID,

12 three-way calling, voicemail. We offer all of the

13 services.

14 Q. Okay. So you -- go ahead. I am sorry.

15 A. But we educate our low-income consumers

16 on a couple of fronts. Like with voicemail, it can be

17 as much as \$10. You get an answering machine for \$20

18 at Wal-Mart. You don't have that problem. What we

19 have experienced -- in my experience, in our experience

20 in the last five years, most low-income consumers have

21 anywhere from 5, 6, 7, 8 different people in the house,

22 using some of those ancillary services that increase

23 their bill.

24 I think in our experience from the ILEC,

25 the rates are lower but the actual bill the consumer is

1 responsible for, as shown to be hundreds of dollars
2 consistently. So to answer the question, \$54, \$19,
3 \$29, that's one price. That bill does not change.

4 Q. So I wanted to -- so on vertical
5 services, if I wanted a whole package of vertical
6 services -- and let's say excluding voicemail.

7 A. Sure.

8 Q. Okay. So just the regulated vertical
9 services. How much would that be for a normal
10 customer? A regular customer?

11 A. I am not 100 percent sure in Missouri
12 what those prices are. But we do have discounts in
13 other states where up to \$20 and you can get all the
14 services. You can get all the bells and whistles.

15 Q. So about \$20 --

16 A. Sure.

17 Q. -- for all of it?

18 And, of course, there are individual
19 prices --

20 A. Absolutely.

21 Q. -- under that.

22 Now, are you offering or plan to offer a
23 discount to Lifeline customers for those same vertical
24 features?

25 A. Yes. We would like to do that. We

1 haven't done it in the past. We haven't -- unless
2 we -- we run promotions sometimes based on the pricing
3 structure or discounts we get from the ILEC. So
4 promotional times, that whole feature package would be
5 \$10.

6 Q. Would that be the same promotion that is
7 provided both the Lifeline and to regular customers?

8 A. Yes. Correct.

9 Q. Okay. So you are not providing a
10 special discount for Lifeline customers for vertical
11 services?

12 A. No. I am not.

13 Q. I want to make sure that. And you said
14 voicemail is \$10?

15 A. Yeah. I believe it's \$10 a month for
16 voicemail.

17 Q. What percentage of the -- in other
18 states, what percentages of your Lifeline customers
19 take the vertical services package?

20 A. Last time we looked, we had 1 percent.
21 Less than 1 percent actually, that even care about
22 vertical service.

23 Q. And that is based on actual
24 subscribership?

25 A. Absolutely.

1 Q. What about voicemail?

2 A. We've haven't had any -- we had one
3 person in about four years in running the company,
4 that actually wanted voicemail. The other ones have
5 been okay with getting the answering machines and
6 calling cards.

7 Q. You say that you educate your customers?

8 A. Sure.

9 Q. How do you do that?

10 A. As a phone -- you call in, there's a
11 voice message. There is a message that you listen to,
12 while the customer service rep verifies your
13 information. And also the rep itself kind of educates
14 its customer. A lot of us, our eyes are bigger than
15 our pocket. You get online, and like the ILEC,
16 they're -- inherently, they're built to sell things.
17 That's where they make their money. So they want to
18 give you, you know, Internet access, and get a whole
19 lot of different things that you ultimately can't
20 afford.

21 We talk to our consumers about a bill
22 that's predictable that they'll get it the first of the
23 month, within the first week of the month when most of
24 them receive their subsidies from the State, Feds, most
25 of their pay periods. We talk to them about advantages

1 of calling cards or managed long distance plan.
2 Voicemail, answering machine versus voicemail. Pay one
3 fee for it and it does all the same things that
4 voicemail does. That's what we talk about, being smart
5 and making good choices.

6 Q. Okay. Now, is that part of the -- of
7 the -- you said -- is that a recording or is it a live
8 representative that --

9 A. Live rep talks through all of it, but
10 the recording talks about, Hey, we don't provide
11 voicemail. We recommend that you get an answering
12 machine. And we kind of talk about why we think that
13 is a good thing.

14 Q. How long does that -- how does that
15 conversation go on for the -- with the rep and the
16 customer?

17 A. Our experience, and we serve hundreds of
18 thousands customers over the last four years, most of
19 our customers want basic service, phones in their homes
20 if something happens to their children. They want a
21 predictable bill. Most of them have been through the
22 mill already. They have had the ILEC service. The
23 15-cent line basic service and the \$200 worth of other
24 long distance calls and all the features and everything
25 else that bought that they couldn't pay it all. So

1 they already been through the mill.

2 When they buy our services, they
3 understand the whole focus is you can predicate your
4 bill, you will have phone service in your home. That
5 is what we hear most of the time. We run a television
6 ad. We have a point-of-sale product. People see the
7 commercial, they call.

8 Q. But when the person -- when the
9 representative is talking to the person, I mean is that
10 a three-minute conversation, five-minute
11 conversation --

12 A. At average, it takes -- at the same time
13 the order is being provisioned --

14 Q. Uh-huh.

15 A. -- we have a five and half -- it takes
16 five minutes and thirty seconds to do it all. Place an
17 order, provide a phone number, educate the consumer, it
18 happens in five and half minutes average.

19 Q. Okay. Does you company sell or --
20 the representatives, are they paid a straight salary or
21 commission?

22 A. No. Straight salary. We don't have
23 any -- the only bonus structures we have is if you
24 educate your consumer about all the benefits of long
25 distance calling cards, the manage plan process is what

1 we talked about, showing up on time and make sure your
2 handle time dealing with the customer doesn't go over
3 five and half minutes, but not below four minutes.
4 That is kind of where all of our commission incentives
5 reside over.

6 Q. It is not based on sales?

7 A. Not at all. We don't make money on --
8 we make money on customers paying their bill month
9 after month, not ancillary services. That's not how we
10 work.

11 Q. Now, you operate in 10 states; is that
12 correct?

13 A. Yes. We operate in 10 states.

14 Q. And in each one of those states you are
15 certified as an ETC?

16 A. Absolutely. I think we are licensed in,
17 like, 27 states as ETC, if I am not mistaken.

18 Q. You are licensed, but you're only doing
19 business in --

20 A. In 10.

21 Q. -- 10 of those 27?

22 A. Correct. Correct.

23 Q. Is there any reason why you are not
24 doing business in all of the states that you are
25 licensed as ETC?

1 A. It is an operational -- we are already
2 doing business in a SBC/AT&T territory. There is a
3 learning curve for your representatives. If you are
4 doing business in QWest, Verizon, SBC, the more LECs,
5 the more different things they need to learn. So what
6 we try to do is, we are in SBC territory. We try to
7 get a license in SBC so provisioning orders, educating
8 the consumer, all those things is less than of a third
9 because they are already doing business in that type of
10 states. Some states that we are not in yet, we are not
11 currently provisioning any Verizon orders yet. We
12 have to learn how to do that as a company.

13 The states that we're not doing business
14 in, we currently don't do business within that LECS
15 territory or ILEC territory.

16 Q. But you're -- you have a certificate to
17 operate as a CLEC in those territories.

18 A. Correct. And I shouldn't say we are not
19 doing business. We are doing business, we just aren't
20 doing big volume. You know we have customers there,
21 it's more like 100 or 200. It's a small, small
22 percentage of the customers.

23 Q. In those --

24 A. Correct.

25 Q. In like those Verizon states --

1 A. Correct.

2 Q. -- you are talking about?

3 A. Correct. Verizon territories. Correct.

4 Q. So, when you say 10 out of the 27,

5 you're doing business in all 27?

6 A. Yes. We have -- we have phone lines in

7 all 27. That's correct.

8 Q. Okay.

9 A. We are aggressively doing business in

10 10 states.

11 Q. In 10 states. Okay. And what are the

12 SBC or AT&T states that you are --

13 A. Michigan. Hold on a second. I can find

14 that for you. Give me a second here. It is under here

15 (indicating): One, 2, 3, 4, 5, 6, 7, 8, 9,

16 10, 11, 12, 13, 14, 15, 16, actually we are in 17

17 States with an ETC. I am sorry. Not 27, 17. I made a

18 mistake. Also, we have applications pending in

19 Mississippi, Massachusetts and Georgia.

20 Q. What was the first -- we are talking

21 about a learning curve -- what was the first AT&T or

22 SBC state that you were certified as a ETC and started

23 doing business?

24 A. Michigan.

25 Q. Michigan. That is No. 1.

1 A. Correct.

2 Q. What year was that? Approximately?

3 A. Don't quote me on that, but I think '05.

4 I am not 100 percent sure about that.

5 Q. Okay.

6 A. I think '05.

7 Q. And your company has been in business

8 since 2003; is that right?

9 A. Correct. First customer was in 2003.

10 Correct.

11 Q. And in how many other AT&T states are

12 you presently doing business as a ETC?

13 A. We just got approved in Kansas. Off the

14 top of my head, I don't know which ones are with which

15 LEC.

16 Q. Why don't you read the states you are.

17 A. All right. Absolutely. California,

18 Colorado, Florida, Iowa, Kansas, Louisiana, Michigan,

19 Minnesota, Nebraska, New York, North Dakota, South

20 Dakota, Tennessee, Texas, Utah, Wyoming.

21 Q. Out of that, I've seen Michigan, Kansas,

22 California, and Texas as the AT&T States. Does that

23 sound about right?

24 A. Yes. I believe so.

25 Q. I am operating on memory too. And it is

1 not that good. Okay. I just wanted to kind of get a
2 feel for that. Now, I believe counsel in their opening
3 statement said that there were two states that you no
4 longer do business in where you were doing business?

5 A. Yeah.

6 Q. What states are those?

7 A. Those are Washington and Oregon.

8 Q. And what was the reason why you no
9 longer do business in those states?

10 A. The underlying carrier raised our UNE
11 rates about 25 percent.

12 Q. And who would that be, the underlying
13 carrier?

14 A. QWest.

15 Q. QWest. How long ago was that?

16 A. January 1st.

17 Q. This year?

18 A. Yes, sir.

19 Q. Now, in your testimony you were talking
20 about that your target market is the low-income
21 customer. Now is this the target, the customer target
22 market in all the states that you go into? You are
23 targeting specifically the low-income consumer?

24 A Let me back into that question. We
25 believe that we are an alternative provider. On no

1 level do we think we can provide service at a rate as
2 low as the ILEC. They own the facilities. They own
3 the last mount to the house. Co-location fees can be
4 as expensive if you don't reach a certain number of
5 customers in a certain area. We are an alternative
6 provider.

7 Most alternative carriers, prepaid
8 carriers and other people outside the ILEC and rural
9 carriers, the pool of customers there are primarily
10 low-income. So what I go after, say, a business or you
11 and me, say I am going to market my service at \$54,
12 probably not a good business. We do target -- we're an
13 alternative provider, so most of those folks are
14 low-income consumers.

15 Q. So you don't have a separate program for
16 the non-low-income --

17 A. We do, but we don't think we can compete
18 with the ILEC as far as prices.

19 Q. So you -- I mean you don't have like --
20 you have your -- let's say in Missouri you are doing
21 low-income and in Michigan you are trying to satisfy
22 all residential customers. That's not how your
23 business is set up?

24 A. I think we market to everybody. But I
25 think our niche, things we potentially do well, is the

1 low-income segment, is what I think.

2 Q. Yeah. I think you described it as an
3 affordable alternative.

4 A. Correct.

5 Q. Okay. You said an affordable
6 alternative to the higher-priced prepaid local
7 providers?

8 A. Correct.

9 Q. Now, in Missouri, can you identify who
10 those other providers are?

11 A. I don't have it off the top of my head
12 there.

13 Q. Was that in your testimonies?

14 A. It might be in my testimonies somewhere.
15 I am not sure.

16 Q. On maybe Page 9 of your surrebuttal.

17 A. Reconnects. I guess 877 ring again.

18 Q. Right. That list there.

19 A. Yes.

20 Q. I think you identify the -- and that
21 20 prepaid or the 16 carriers -- 16 of them, they don't
22 even list that they service low-income or disabled
23 subscribers. But --

24 A. That is their customer base, though.
25 Absolutely.

1 Q. Okay. So you don't know whether they're
2 operating or not?

3 A. No. I am not 100 percent sure whether
4 they're operating or not. That is correct.

5 Q. So who would you identify as your
6 competition in Missouri?

7 A. Well, I think we have an interesting
8 niche, in my opinion. We're not as low as the ILEC.
9 We're not as expensive as the prepaid company. So I
10 think we have a little space where you get a low-income
11 consumer who can benefit from a program that's designed
12 to help them have lower bills. So I think we are in a
13 niche, in our particular space as a post-paid provider,
14 is what we are. We are an alternative postpaid
15 provider.

16 Q. An alternative postpaid.

17 A. Correct. We are not as low as the ILEC,
18 but we are not a prepaid provider.

19 Q. I am confused. You are saying a
20 postpaid. So you get paid after the service is
21 provided?

22 A. Absolutely. Correct.

23 Q. Why have you been described as a prepaid
24 in your testimony?

25 A. Well, my idea of a prepaid carrier is an

1 alternative carrier. Not that we take payments
2 prepaid. But our competition, like Staff compared us
3 to prepaid carrier versus the ILEC. Our target market
4 who we focus on, true competition we post -- prepaid
5 companies. We actually do business as a postpaid
6 company.

7 Q. So you are extending credit for a month?

8 A. Absolutely.

9 Q. For the customer?

10 A. Absolutely.

11 Q. When would --- do you recall when VCI
12 was certified in Missouri?

13 A. I don't know that.

14 Q. Roughly --

15 A. Looks like December 12th of 2005. No.

16 I am sorry. Effective order is April 10th, 2006. No.

17 Company has been certified by the Commission as of CLEC
18 as of April 10th, 2006.

19 Q. You said to Mr. Meyer that you have a
20 tariff on file?

21 A. Yes. From my understanding, I do.

22 Yes.

23 Q. And I noticed that in your testimony,
24 you talked about an interconnection agreement with SBC?

25 A. Yes. Correct.

1 Q. And when was that finally approved, if
2 you know?

3 A. I don't know that off the top of my
4 head.

5 Q. It's sometime during 2006, obviously.

6 A. Correct.

7 Q. Okay. And would you be operating in
8 Missouri? Well, you currently operate in Missouri.
9 You have customers in Missouri?

10 A. We do not.

11 Q. You haven't marketed anything in
12 Missouri?

13 A. No, sir.

14 Q. If you do not receive the ETC
15 designation, will you operate in Missouri?

16 A. Yes, we will. But more than likely, I
17 will have to be a prepaid provider. I would have to
18 get funds in advance from the consumer.

19 Q. If you get an ETC designation, will just
20 your Lifeline customers not be prepaid, be postpaid and
21 the rest of the customers be prepaid?

22 A. No. If I -- if I -- if VCI gets
23 designated an ETC, everyone will be postpaid.

24 Q. Under the assumption that everyone will
25 qualify for Lifeline?

1 A. Every customer -- absolutely -- who gets
2 Lifeline will be postpaid.

3 Q. Right. If you have a customer that
4 doesn't qualify for ETC, I mean for USF Lifeline, then
5 will they be a postpaid or a prepaid?

6 A. I believe they would be postpaid.

7 Q. Now, is your -- your authorized -- your
8 certificate is for doing business throughout the entire
9 AT&T --

10 A. Service area. Correct.

11 Q. -- service area?

12 A. Correct.

13 Q. You intend to -- to operate as an ETC
14 during that complete entire AT&T process. Right?

15 A. Absolutely.

16 Q. Okay. I understand that you -- I
17 believe in your direct testimony, I think it was around
18 Page 7. Or no, Page 7. You talked about how you will
19 reduce your prices of services by passing through all
20 eligible, all applicable State and Federal support to
21 the customers. Okay. But then I notice that you are
22 not applying -- I am sorry. I am jumping ahead trying
23 to --

24 MR. STEINER: What page are you
25 referring to, Mike?

1 MR. DANDINO: Page 7, Line 7 to 8.

2 MR. STEINER: Is that direct or
3 surrebuttal?

4 MR. DANDINO: Direct. I am sorry.
5 Maybe I got the wrong page.

6 THE WITNESS: Mine says Joint for to
7 review certain Commission rules related to high-cost
8 Universal Service Fund --

9 COURT REPORTER: You need to speak up a
10 little bit.

11 THE WITNESS: No. I was trying to find
12 where he was. I didn't actually see the page.

13 BY MR. DANDINO:

14 Q. Let me find it. I was reading off
15 the -- now here it is (indicating). The page numbers
16 don't match up. Well, let me -- let me go on. I
17 understand that you are not -- or VCI is not planning
18 to provide or request Missouri State USF Funds?

19 A. That is correct.

20 Q. Why is that?

21 A. Some states that we have done business
22 in -- the reason we have the discount for the consumer,
23 or the company discount -- some states don't have a
24 state fund. So VCI for the last -- every new state
25 outside of Washington, we actually don't draw on the

1 state's fund at all. We have a company discount that
2 qualifies us for, I think, Tier 2 support with the
3 Feds. That's kind of how -- but we give the consumer
4 discount if we are getting from the State. We have
5 seen that to be more productive.

6 Q. So are you saying that you provide the
7 discount that the State would have provided with its
8 USF --

9 A. Correct.

10 Q. --- but the company is paying for it?

11 A. That's correct.

12 Q. Do you plan on continuing that practice?

13 A. We are a pretty lean company,
14 operationally. It's worked for us. The only way that
15 would ever change is if the ILEC increased their
16 prices. But right now, we plan on continuing that
17 practice.

18 Q. I am confused over -- you had -- your
19 testimony said you are going to provide service either
20 by UNE plus resale or by resale. And I am not sure
21 which one are you definitely intending to provide
22 service, the means you intend to provide service?

23 A. What I will say, we haven't -- I am not
24 100 percent sure how we will do in Missouri. I don't
25 currently do business here. I can talk about what

1 we've done historically in other states. Most of the
2 time, the pricing from the ILEC is more expensive the
3 further it is from CO, central office.

4 Q. Huh-uh.

5 A. As you go out further, it cost more to
6 provide service. So for example -- I don't even know
7 how many zones are here. Say Zone 4 or Zone 3, that is
8 further away from the CO. We would provide a resale
9 product and we would offer directory assistance as
10 well.

11 Q. So you --

12 A. So we use a combination of resale and
13 UNE-based on the pricing structure of the ILEC. So we
14 will use both in the State.

15 Q. And it is my understanding that if you
16 use resale --

17 A. Uh-huh.

18 Q. -- that -- that the underlying carrier
19 gets the USF funds. Right?

20 A. Not 100 percent. The FCC states that
21 you can -- of the nine support service, you can resale
22 all of them but one. If one service you provide on
23 your own network, you are considered a facility owner
24 there.

25 Q. What service do you typically provide on

1 your own network?

2 A. 411.

3 Q. Directory assistance?

4 A. Correct.

5 Q. Does the customer have any choice in who

6 to select for directory service?

7 A. Yes, they do. What we do with AT&T, we

8 have 888-411-6615. Goes out on all of our bills. We

9 inform all our consumers. This is a free option

10 available to them. I think the ILEC charges me

11 75 percent -- 75 cents per call, which in turn turns

12 into a \$1 or \$2 for the actual consumer. So do they

13 have a choice? Yes.

14 Q. They can select AT&T's directory

15 assistance?

16 A. For a fee. Absolutely. Correct.

17 Q. For a fee.

18 A. Correct.

19 Q. And they can, you know, select Verizon

20 directory assistance?

21 A. I don't know if they can select

22 Verizon's. I don't know about that.

23 Q. Okay. For the long distance, they --

24 A. They can pick anybody they want for long

25 distance.

1 Q. Okay. But they -- they -- that's
2 because it is used by -- they access long distance only
3 by a calling card?

4 A. No. No. You can select your long
5 distance company. They will give you a PIC code.
6 Sprint, Verizon, whoever you want to go with. And we
7 provision your order where you actually pick your long
8 distance to that company.

9 Q. That's as long as there is no toll
10 blocking?

11 A. Well, that is outside of toll blocking.

12 Q. Right.

13 A. You don't have toll blocking if you say,
14 hey I want Verizon as long distance. Then I have to
15 PIC your line, so I can't put toll blocking on it.

16 Q. But if a customer gets toll blocking --

17 A. Sure.

18 Q. -- to keep down the long distance phone
19 calls --

20 A. Absolutely.

21 Q. -- to keep it manageable, then they
22 wouldn't have -- they would really be -- in order to
23 make a long distance phone call or get a long distance
24 provider, they would have to use calling cards?

25 A. That's correct.

1 Q. Just a few more questions, Mr. Johnson.

2 A. Sure.

3 Q. Do you provide MCA service for your
4 customers?

5 A. MCA?

6 Q. Metropolitan Calling Area service?

7 A. Yes, we do.

8 Q. Okay. And how do you provide that?

9 A. From my understanding -- and we haven't
10 provisioned in an order here in Missouri. But in
11 Michigan, I think we had some of the same problems
12 where their local area was only -- just talking maybe a
13 few blocks. And we had to provide this metro kind of
14 call. We have to pick -- we have to provision the
15 order differently. If I think I understand you
16 correctly.

17 Q. Now, do you charge or have an additional
18 charge for MCA service?

19 A. No. We do not.

20 Q. Do you have any other -- or any other
21 expanded calling programs, where a customer can
22 purchase a block of time?

23 A. No. We do not.

24 Q. How do you -- if I wanted to get your
25 service --

1 A. Sure.

2 Q. -- where do I -- do I call an
3 800 number?

4 A. Yes.

5 Q. Do I go to a -- you know a -- I believe
6 you said you put up in signs in social work agencies or
7 hospitals?

8 A. We advertise. FCC requires us to
9 advertise in a mass market means. Television ads. And
10 we also send brochures to all of the Department of
11 Health Services throughout our serving area.

12 Q. Now, is the only way that you can sign
13 up for it over the phone or is there any -- do you have
14 any walk-in stations?

15 A. We do not have walk-in stations. We are
16 over the phone.

17 Q. And you have no agents who are working?

18 A. No, sir.

19 Q. You don't have a pre-- or use check
20 cashing --

21 A. No, sir.

22 Q. -- services?

23 A. What we found most places, I think you
24 called it telephone sharks or something. The words you
25 used earlier. Most of those places are cash, prepaid

1 cash and all those -- they are getting 300, 400, 500
2 percent on the money with consumers. We think they are
3 taking advantage of the low-income consumer. So we
4 don't practice that. Agents that want \$10 per
5 customer, which you have to pass on to the consumer you
6 end up with prepaid rates. We stay away from that and
7 offer a lowest product.

8 MR. DANDINO: Like I said, I hope that
9 you are a customer friendly dolphin and not a telephone
10 shark.

11 That's all I have, your Honor.

12 Thank you very much. Thank you,
13 Mr. Johnson.

14 THE WITNESS: Thank you.

15 JUDGE STEARLEY: Thank you,
16 Mr. Dandino. Cross-examination AT&T Missouri,
17 Mr. Gryzmala?

18 CROSS-EXAMINATION BY MR. GRYZMALA:

19 Q. Morning, Mr. Johnson.

20 A. Good morning. How are you?

21 Q. Mr. Dandino already covered some of the
22 ground that I would, so hopefully it will be a little
23 bit shorter. Let me refer you first, if I may, sir, to
24 your -- refer you, I should say, to your surrebuttal
25 testimony at Page 5, and in particular that passage at

1 lines -- I think on my copy -- it appears to be at 8
2 and 9, in that area. Point being, it is your opinion,
3 it is VCI's opinion that comparison of the ILEC rates
4 and VCI's rates is inappropriate. Is that a fair
5 statement in your position?

6 MR. STEINER: Where do you see the word
7 inappropriate in there?

8 BY MR. GRYZMALA:

9 Q. Page 5, surrebuttal of Stanley Johnson,
10 Line 8 or 9. It is just a hair off. The sentence
11 states: Furthermore, comparison of incumbent and
12 competitive carrier rates is inappropriate because of
13 the cost basis of these carriers are entirely
14 different. That VCI's opinion and that's your
15 testimony. Correct?

16 A. Correct. Yes. I do see that.

17 Q. So may I ask you: You do not deny --
18 VCI does not deny in this case that its rates, terms
19 and conditions to customers are not comparable to those
20 of AT&T?

21 A. That is correct. No. No. Their rates.
22 I think the product and everything else, the plans are
23 exactly the same. I just think the rates are
24 different.

25 Q. Okay. And that is stated, and maybe

1 more to the point, there is no question or rather VCI
2 agrees, VCI admits that its rates are not comparable to
3 those of AT&T Missouri. Correct?

4 A. Well, I don't know how they be -- the
5 word comparable is subjective.

6 Q. Well, let's just use your understanding
7 of what that word means. Would VCI agree that the
8 rates are comparable to those of AT&T or not?

9 A. I think when you are on their own
10 playing fields, they are absolutely comparable.

11 Q. Now, you obviously agree that the rates
12 are not exactly the same?

13 A. No. No. They are not the same.

14 Q. In fact, your direct testimony says that
15 they are not the same?

16 A. No. They are not.

17 MR. GRYZMALA: May I approach, your
18 Honor?

19 JUDGE STEARLEY: Yes, you may.

20 MR. STEINER: Bob, do you have a copy
21 for me?

22 MR. GRYZMALA: That's the Commission's
23 rule.

24 MR. STEINER: What section?

25 BY MR. GRYZMALA:

1 Q. Mr. Johnson, I just handed you what I'll
2 represent as being a copy of the Commission's ETC rule
3 3.570. I would like to address your attention to
4 Subpart 2A-10.

5 A. Yes.

6 Q. And if you would kindly read that rule
7 so we can familiarize ourselves what that requires of
8 ETC applicants.

9 A. Sure. A commitment to offer a local
10 usage plan comparable to those offered by the incumbent
11 local exchange carrier in the areas for which the
12 carrier seeks designation. Such commitment should
13 include a commitment to provide Lifeline, Link Up
14 discount and Missouri Universal Service Fund discount
15 pursuant to 24 CSR 240.31 as applicable at rates,
16 terms, conditions, comparable to the Lifeline, Link Up
17 offering of the MOSLF offering to incumbent local
18 exchange carrier providing service in ETC service area.

19 Q. Do you take that to say that the terms,
20 the rates, terms and conditions of VCI service must be
21 comparable to those of AT&T Missouri, based as your
22 reading the rule?

23 A. It says, if applicable. In my mind, if
24 you are comparing apples to apples, if you are looking
25 at ILEC to ILEC, CLEC to CLEC, if applicable. That is

1 how I interpret that.

2 Q. Wouldn't it be a more fair reading of
3 the rules to state the term or the phrase if applicable
4 refers to Missouri Universal Service Fund portion of
5 that rule, and not to terms, rates and conditions
6 require generally?

7 A. Not in my mind.

8 Q. Isn't it a fact that under the FCC,
9 presented rates must be generally comparable for the
10 local usage plans that is put forth by a competitive
11 ETC applicant?

12 A. From what I have seen, it's the plan,
13 not the rate that is getting more attention.

14 Q. Are you suggesting that the FCC analysis
15 includes no rate analysis whatsoever?

16 A. No. No. I am saying that I think most
17 of the things that I've seen with the FCC refer to the
18 plan, the actually product that the end user gets.

19 Q. But my question is: Do you agree or do
20 you not that the FCC analysis includes a component
21 involving the relative rates?

22 A. I don't think so. I think that is why
23 they have a public interest component at the FCC.

24 Q. In your direct testimony -- I am sorry.
25 Stay on that page we were on before, Page 5 of your --

1 A. Okay.

2 Q. It is your opinion that regardless of
3 the rule that you just read into the record, a
4 comparison of the rates is inappropriate?

5 A. How I interpret what you just read, I
6 think this is a fair statement.

7 Q. Okay. Let's assume for argument's sake
8 that the rule requires comparability and rates, terms
9 and conditions. And I will direct your attention after
10 making that assumption to your direct testimony on
11 Page 19, that states words to the effect that your
12 basic rate will be \$19 a month --

13 A. One second. One second.

14 Q. I am sorry. That will be Page 19 of
15 your direct testimony.

16 A. Sure. Yes. I am here.

17 Q. Okay. And we're together in the sense
18 that we both agree that VCI basic monthly would \$19 a
19 month after service discounts?

20 A. Correct.

21 Q. Okay. And if you -- let me ask you to
22 assume for purposes of the question -- let me withdraw
23 that.

24 Have you read Mr. Stidham's testimony
25 for AT&T Missouri?

1 A. I have. It has been a minute. It's
2 been a while.

3 Q. Do you recall passages that basically
4 laid out the rates for AT&T Missouri? Numbers to the
5 effect that in a Group Rate A exchanges Missouri, AT&T
6 Missouri Lifeline rates are approximately 15 cents. Do
7 you recall that?

8 A. I remember you just saying it. So, I
9 don't recall it myself. But I do remember you just
10 mentioned it.

11 Q. Let me ask you to assume that to be the
12 case.

13 A. Sure.

14 Q. That would be a previous testimony.

15 A. Okay.

16 Q. And likewise, that his testimony also
17 reflects that in other exchanges, depending on the rate
18 groups involved in our offering territory, the Lifeline
19 rates are a high of about 5 to \$6. Let me ask you to
20 assume that.

21 A. Okay.

22 Q. Assuming those differences of VCI's rate
23 of \$19 a month versus AT&T's rates of from 15 cents per
24 month to \$6 a month, would you regard VCI's and AT&T
25 Missouri's rates as comparable?

1 A. If they were the same type of company,
2 I would say they were not comparable. But AT&T, in my
3 opinion -- AT&T benefits from having VCI as an ETC.

4 Q. Okay. Tell me in the rule of the
5 Commission's rule where, depending upon the company or
6 the benefits, the rates, terms and conditions need not
7 be comparable. What language in the rule justifies
8 that?

9 A. I am not an attorney. I don't know
10 that.

11 Q. Just basically reading the rule, is
12 there anything in the rule that just accounts for what
13 you said?

14 A. What rule are you referring to?

15 Q. The rule you just read, 2A-10.

16 A. It is if applicable in my mind, covers
17 that question.

18 Q. Okay. Apart from the analysis of the
19 rule, would you regard those rates as comparable? That
20 is 20 or \$19 per month versus 15 cents to \$6?

21 A. They wouldn't be comparable if the
22 companies were the same company, same type of company.

23 Q. What do you mean by that?

24 A. What I mean is that AT&T -- like I was
25 saying to you earlier, I think AT&T wins by having VCI

1 as a carrier because you sell me a line a for
2 low-income consumer at a higher price than you can
3 charge them, and I'm responsible for managing the
4 customer.

5 Q. Well, are you talking about now the
6 differences are comparable or justified because of the
7 benefits for AT&T or the type of company. Your answer
8 started type of company.

9 A. Still the type of company because I
10 can't provide the service without you, without the
11 agreement I have with you. So we are not the same
12 company. You can provide the service without help from
13 anyone else. You're the underlying carrier. So we are
14 not the same.

15 Q. And how does that translate into a
16 justification or reason why VCI's and AT&T's rates need
17 not be comparable?

18 A. Because I have to factor in what I pay
19 you, where you don't factor in, you don't have anybody
20 else to pay. You are the actual person that owns the
21 network.

22 Q. For resale service, however, you are
23 able to take advantage of AT&T Missouri's Lifeline
24 rates at a resale discount, are you not?

25 A. But you become the person who gets the

1 benefit from the Federal and State government. Right?

2 Q. And yourselves as well. Derivatively,
3 because you take advantage of the 15 cents at a
4 discount beyond that. Correct?

5 A. If you -- I don't think ETCs both can
6 get the discounted line, but --

7 Q. No. I agree with that. But if your
8 company -- you talk about the character of the
9 company --

10 A. Sure.

11 Q. -- the fact that we are the incumbent
12 carrier --

13 A. Absolutely.

14 Q. -- isn't it a fact that you take resold
15 services from AT&T, while you don't get the Universal
16 Service Fund discount, you get deeply discounted resold
17 services and are able to charge your customer face
18 value without applying any USF discounts to that
19 customers bill. Isn't that fair?

20 A. Well, that's not currently our business
21 model.

22 Q. Is that accurate that --

23 A. From what you are saying, yeah.

24 Q. And it is also accurate that you have
25 not decided whether you will do this on a resold basis

1 in Missouri. Didn't you just state that you haven't
2 made a decision as to whether or not to use UNE versus
3 resold services in Missouri?

4 A. It is two products. The product you are
5 referring to get a discount is a different product in
6 resold services.

7 Q. I agree. But my question remains. You
8 have not decided how you are going to draw services
9 from AT&T Missouri in this state, whether by UNE or
10 network elements, or on the other hand, perhaps by
11 resale. You haven't made that decision.

12 A. I think I have.

13 Q. I thought your direct testimony said you
14 haven't decided that definitively.

15 A. You just asked me a minute ago how we
16 are going to do it. I said I would use both, depending
17 on the structure and what the ILEC charges me. So it
18 is not either or it is both.

19 Q. Is it not fair to state that your
20 testimony here today was to the effect that we are not
21 100 percent sure how we will do business here.

22 A. Correct. Read on a little further.
23 Read on a little further. I actually said check the
24 record. We will do both.

25 Q. Let's assume that your \$19 a month rate,

1 which is the monthly rate after discounts, is instead
2 \$29 per month.

3 A. Sure.

4 Q. That's the instance in which the
5 customer \$100 -- \$150 after Link Up, installation
6 charge of 120 is an installment billed over 12 months,
7 \$10 a month on top of 19 gives you \$29 a month.
8 Correct?

9 A. Okay.

10 Q. Would it still be your position --- that
11 is accurate right?

12 A. Sure.

13 Q. Do I have the numbers right?

14 A. Sure. I believe so.

15 Q. Is it still your position that VCI's
16 monthly rate of \$29 would be comparable to AT&T
17 Missouri's of 15 cents to a range of 5 to \$6?

18 A. Monthly rate? I am confused.

19 Q. Okay. \$19 is your basic monthly rate
20 after discount.

21 A. Correct.

22 Q. Plus \$10 of which is 1/12th of the
23 installment fee. Installment billed over 12 months.

24 A. I see those components as different.
25 One is a non-reoccurring charge that we give the

1 customer the liberty of spreading out over terms.

2 Q. I understand.

3 A. Basically --

4 Q. Your counsel can explore that on
5 redirect. But my question to you is: Is it your view
6 that the \$29 is comparable to 15 cents to 5 or \$6?

7 A. You would have to add in your connection
8 fee to even start to try to compare that --

9 MR. GRYZMALA: I would just like him to
10 answer, your Honor. I ask for a yes or no answer.

11 MR. STEINER: Your Honor, I think he has
12 answered that he believes they are comparable.

13 MR. GRYZMALA: We talked earlier about a
14 \$19 assumption. I am now asking him about \$29
15 assumption. And he has not answered the question.

16 THE WITNESS: He is not factoring in his
17 connection fee, he is not reoccurring -- am I supposed
18 to talk? He's not factoring his non-reoccurring. He
19 is still talking about the monthly.

20 JUDGE STEARLEY: Please answer the
21 question with a yes or no, and your attorney can direct
22 that -- back to you on that on redirect. He will have
23 a chance to explore that with you further.

24 THE WITNESS: I see. Do I think my \$29
25 monthly charge and 15, if the companies were exactly

1 the same, no, that would not be comparable.

2 BY MR. GRYZMALA:

3 Q. And the key components on which you
4 determine that they need not be comparable are, once
5 again?

6 A. The ILEC owns the facility. It's the
7 underlying carrier. I have to buy my product from the
8 ILEC. The ILEC owns the facility. Does not have the
9 cost to pursue. It only has operational expenses.

10 Q. Is there anything in the VCI tariff,
11 Mr. Johnson, that requires or binds VCI to offer its
12 customer installment billing of its \$120 after Link Up
13 installation charge?

14 A. Yes. We have put it in some tariffs.
15 If that is not, that is something we would add to our
16 tariff. Gives them the right to pay over terms. It is
17 actually an FCC rule as well, that you have to offer a
18 customer the option to pay as an installment over
19 12 months.

20 MR. GRYZMALA: May I approach, your
21 Honor?

22 JUDGE STEARLEY: Yes, you may.

23 MR. STEINER: Do you have a copy, Bob?

24 MR. GRYZMALA: No. It's your tariff.

25 MR. STEINER: What is it? The tariff?

1 BY MR. GRYZMALA:

2 Q. Mr. Johnson, let me hand you what I
3 believe -- I'll represent to you as the VCI tariff
4 drawn from the Commission's EFIS database.

5 A. Okay.

6 Q May I ask: Is there anything that you
7 can point to me in your tariff that binds VCI to a
8 commitment to its customers to offer installment
9 billing over 12 months of its \$150 less \$30
10 installation charge of \$120?

11 A. I don't see it. This looks like an
12 older tariff here. We don't even have the Lifeline
13 rates in this tariff. I don't think this is the most
14 current tariff. There is no Lifeline rates in this
15 tariff. So I don't think it is the most current. All
16 I see is the retail rates. To answer your question, I
17 don't see anything there.

18 Q. I apologize if I am incorrect. I
19 thought I had the most effective tariff. But the
20 record will show that on the EFIS website.

21 A. Sure. Sure.

22 Q. If the tariff did not have a provision
23 applied in VCI to offer its customers installment
24 billing, would you not believe it is appropriate in
25 that regard to provide that element, that passage in

1 your tariff?

2 A. Absolutely.

3 Q. And you would so state -- you would so
4 do that if the Commission --

5 A. Absolutely.

6 Q. --- required that you do so?

7 A. Absolutely.

8 Q. Okay. I wanted to refer your attention
9 to your direct testimony, if I may, pages -- Page 5. I
10 am sorry. That would be supplemental Page 5. And
11 there is a passage there commencing around 15 through
12 19, that talks about Pager and Phone company's tariff.
13 The bottom line, which is that apparently that your
14 testimony, is to the effect that Pager and Phone
15 company's tariff -- which presented as tariff of a
16 competitor, a would-be competitor of yours -- would
17 offer a Lifeline rate that appears to be \$22.95. Do
18 you see that?

19 A. Yes. I do, sir.

20 Q. Okay. Let me ask you: Your monthly
21 rate of \$29 would be higher than Pager's \$22.95, would
22 it not?

23 A. To answer the question: This does not
24 include Pager's connection fee. This is strictly their
25 monthly bill. It is not part of their installation

1 pro-rate over 12 months.

2 Q. So despite the analysis you have on this
3 page, it is a more appropriate analysis in your view to
4 take a hard look at their installation charge, see what
5 they allow to be installment billed, what amount that
6 is, stack it up against VCI's monthly rate and its
7 installment charge, whether it allows to be billed on
8 monthly basis and make that apples to apples
9 comparison. Wouldn't that be a fair way to approach
10 it?

11 A. Yeah. I would say that.

12 Q. All right. Thank you.

13 A. I think the rates would be comparable as
14 well.

15 MR. GRYZMALA: I move to strike the
16 answer, your Honor. It was not requested. It was not
17 responsive to the question.

18 JUDGE STEARLEY: That will be stricken.

19 THE WITNESS: I am sorry.

20 BY MR. GRYZMALA:

21 Q. Let me ask you a couple of items
22 regarding deposits, Mr. Johnson, if I may. You
23 mentioned in your rebuttal testimony on Page 8, around
24 Lines 19 to 20, that VCI does not collect customer
25 deposits whether or not the customer agrees to toll

1 limitation. Do you see that?

2 A. Yes. I do.

3 Q. And is it not a fair statement that no
4 carrier can request a deposit in this instance where a
5 customer agrees to toll limitations?

6 A. It is a two-part question. Yes. You
7 are right. But if a customer has a past due bill and
8 it is disconnected from a carrier at any point in time,
9 the carrier has the right at that moment in time, after
10 I think AT&T has a one-time grace period, they will do
11 your bill. If the customer is disconnected again,
12 they can charge a deposit, according to the FCC rules.

13 MR. GRYZMALA: Your Honor, I am going to
14 strike the question (sic). I just simply asked for a
15 yes or no answer.

16 THE WITNESS: Okay.

17 MR. STEINER: And he had to clarify to
18 give you a yes or no.

19 MR. GRYZMALA: No. He turned my
20 question into two questions so he could provide an
21 answer to his liking. He said, yes.

22 JUDGE STEARLEY: Mr. Johnson, please try
23 to restrict your answers to the exact question. As I
24 mentioned earlier, your counsel will have the
25 opportunity to explore the answers further on redirect.

1 Thank you.

2 THE WITNESS: Yes.

3 BY MR. GRYZMALA:

4 Q. So the answer to my question is yes?

5 A. I am sorry. Would you repeat the
6 question again, please?

7 Q. Is it your understanding that Federal
8 law requires that no carrier can collect a deposit
9 where the customer agrees to toll limitation? Is the
10 answer yes or no?

11 A. From my understanding, no, that is not
12 100 percent correct.

13 Q. Okay. And your company does not offer
14 long distance service, does it?

15 A. Correct. We don't.

16 Q. So one of the reasons for which no
17 deposit is necessary in VCI's business model is because
18 they -- VCI does not offer long distance which requires
19 a deposit be taken as a hedge. Is that a fair
20 statement?

21 A. No. It isn't.

22 Q. Is that an accurate statement to suggest
23 that a deposit is sometime appropriate or can be
24 appropriate in the general course of business to
25 protect against the loss of long distances charges that

1 are billed?

2 A. No. That is not -- not in our business.

3 No.

4 Q. So your -- your experience in the
5 industry is that carriers don't consider taking
6 deposits to protect themselves against long distance
7 toll charge loss?

8 A. Not just in -- in my business. No.

9 Not in prepaid business. No.

10 Q. In the industry generally?

11 A. No. That is not the only reason for
12 deposits. No.

13 Q. I did not ask you that. I did not ask
14 you if that was the only reason. I asked you is it a
15 consideration taking deposit to the fact that a
16 customer might not pay long distance charges? Is that
17 not generally a consideration in the telecommunications
18 industry?

19 A. Sure.

20 Q. All right. But where a customer agrees
21 to toll limitation, that consideration is no longer
22 pertinent. Correct?

23 A. Not true.

24 Q. There's no reason to take a deposit
25 based on the loss of high long distance if there is

1 toll limitation. Correct?

2 A. Not true.

3 Q. What reason, based on high toll, would
4 be a basis taking a deposit when a customer agrees to
5 toll limitation?

6 A. There is dial around. There is dial
7 arounds where you would have leakage in my business,
8 where the ILEC will charge you for leakage. It is
9 where the customers call the operator, have them place
10 a third-party call that shows up on the CLEC's bill
11 from the ILEC. There is excessive 411 usage. There is
12 other leakages that CLECs collects deposits for. I am
13 not allowed to sell long distance, so in most ILECs
14 there is a 21-day window where the long distance is not
15 blocked. The customer has access to, even though I
16 don't sell it, I still get leakage of the bills back
17 from the ILEC.

18 Q. But if a company does not offer long
19 distance, there is no reason to take a deposit on the
20 bases of long distance, if a company like VCI. That is
21 why VCI doesn't ask for a deposit from its customers.
22 Isn't that fair? They don't offer long distance?

23 A. No. That is not fair.

24 Q. That is not one of the reasons?

25 A. No.

1 Q. Does VCI -- will VCI reconnect a
2 customer which owes VCI a past due or final bill
3 amount?

4 A. VCI has in the past done that.

5 Q. Is there tariff language which discusses
6 what the commitment of the company is in an instance
7 where customer owing a final bill or a past due amount
8 will be reconnected?

9 A. No. There isn't.

10 Q. There is not tariff language. Would you
11 not then agree that it would be appropriate for VCI to
12 have tariff language which binds it to a commitment to
13 its customer as to what it will do, what it will offer,
14 what it will provide those customers who have final
15 bills and past due amounts owing and ask for
16 reconnection?

17 A. Absolutely.

18 Q. In fact, today there is a reconnection
19 charge in your tariff, is there not?

20 A. Absolutely.

21 Q. And the charge is about, what, \$30?

22 A. I think it is \$30. Twenty or \$30.
23 Correct.

24 Q. But there is no passages in your --
25 there are no passages in your tariff today on how that

1 customer will be handled or treated with regards to the
2 past due amount?

3 A. To my knowledge, it is not in there.

4 Q. But yet you agree -- I just want to make
5 doubly sure on this. I don't mean to be redundant.
6 You do agree that there should be language in your
7 tariff that spells that out?

8 A. Absolutely.

9 Q. Would you agree to do that as a
10 condition to ETC designation with --

11 A. Absolutely.

12 Q. Let me finish so the court reporter can
13 get it.

14 A. I am sorry.

15 Q. Would you agree to that language as a
16 condition to ETC designation by this Commission?

17 A. Yes, sir.

18 Q. Okay. Let me refer you to Page 6 of
19 your surrebuttal. A couple of page earlier than where
20 I was. I am having a heck of a time, I will be
21 honest, with your rates.

22 A. Sure.

23 Q. Just trying to figure out. You provide
24 some -- some example of the discounts and basically
25 what I am seeing is what I believe a top line rate that

1 starts at \$29.99.

2 A. Yes.

3 Q. Okay. That is drawn from your tariff.

4 A. Yes. Correct.

5 Q. And on that you add 5.67, which is the

6 SLC?

7 A. Yes.

8 Q. So the top line rate would be 35.66?

9 A. Correct.

10 Q. I think I have done that math, so that

11 should sync up. \$35.66?

12 A. Sure.

13 Q. All right. Okay. Now, from that we

14 take -- and I am going to go back over some of the

15 cross to get to this point --

16 A. Sure.

17 Q. -- 1.75 Tier 2.

18 A. Correct.

19 Q. 1.75 additional federal support.

20 A. Sure.

21 Q. 3.50 State.

22 A. Yeah.

23 Q. 5.67 SLC.

24 A. Uh-huh.

25 Q. And that adds up to 12.67.

1 A. Correct.

2 Q. I will represent that, those add up.

3 We went through that. Then you add on the 3.99 company

4 discount.

5 A. Uh-huh.

6 Q. So you get to 16.66. And that is

7 likewise, I see, shown on Page 6. So on the one hand

8 we have a top line charge of 35.66, against which you

9 balance off 16.66 in credits.

10 A. Okay.

11 Q. Okay. And we get to \$19.

12 A. Uh-huh.

13 Q. We are square there. Correct?

14 A. Sure.

15 Q. All right. Let me ask a couple of

16 questions that I am not clear on. If you don't intend

17 to take Missouri Universal Service Fund reimbursements

18 or draw from the fund --

19 A. Sure.

20 Q. -- are you absolutely committed to

21 nonetheless providing a customer what is shown on

22 Page 6 of your testimony as a Tier 3 State low-income

23 discount of \$3.50?

24 A. Absolutely.

25 Q. Okay. You will provide that?

1 A. Absolutely.

2 Q. Okay.

3 A. Absolutely.

4 Q. That's okay. Let me make sure I
5 understand. Will you then also provide that customer,
6 that very same customer, an additional \$3.99 company
7 discount?

8 A. Yes.

9 Q. Okay. So, so far we're correct on the
10 math, that 16.66 are applicable discounts in your view?

11 A. Yes, sir.

12 Q. Okay. Let's talk about the SLC. Does
13 your tariff today authorize you to impose upon a
14 customer a subscriber line charge?

15 A. I am not 100 percent sure.

16 Q. If your tariff does not provide for the
17 imposition of a \$5.60 -- 67 cent subscriber line
18 charge, would you not agree that prior to offering
19 service in this state that tariff needs to be amended
20 so as to authorize you to bill that to a customer?

21 A. Yes, sir.

22 Q. And would you also not agree that as a
23 condition of any ETC designation, VCI Company would,
24 have would a commitment to changing its tariff to
25 affirmatively authorize imposing upon a customer \$5.67

1 subscriber line charge?

2 A. Absolutely.

3 Q. All right. Now, let me ask you: Do you
4 have a basis under Federal law to justify charging a
5 customer any subscriber line charge?

6 A. I don't think I understand the question.

7 Q. Is it your understanding you're
8 authorized to bill a subscriber line charge?

9 A. From my understanding, yes.

10 Q. What is your understanding as to what
11 your authority is to be able to do that?

12 A. From my understanding --

13 Q. And I mean your or by VCI.

14 A. Yeah, VCI. I'm not a legal -- but from
15 my understanding USAC or Universal Service Fund, every
16 line in the country is charged an SLC charge, different
17 rates, different places. I am not allowed to charge
18 more than the incumbent charges for an SLC charge to
19 this particular type of customer. But from my
20 understanding, I can.

21 Q. Your understanding is not that that is
22 limited to non-price cap ILECs or price cap local
23 changes companies?

24 A. No.

25 Q. I just want to be clear on that.

1 A. Sure.

2 Q. So that is your understanding.

3 A Yes. There is a -- I think 1,700 ETCs
4 throughout the country and over 1,000 are for CLEC or
5 companies like myself who all collect an SLC charge.

6 Q. Okay. You take issue in your
7 surrebuttal testimony -- and I will refer you to
8 Page 10 -- with AT&T Missouri's witness, Mr. Stidham,
9 having to consider the fairly high penetration rate in
10 Missouri. And your point in the testimony there, if I
11 may direct your attention to Lines 5 through 7, is that
12 Missouri's low-income household penetration rate is
13 about 83 percent, 83.7 percent. So it is you view that
14 is the number to look at. Correct?

15 A. Yes. And it was on FCC's website. We
16 took that straight from them.

17 Q. I understand. Let's be clear where we
18 stand here. Okay?

19 A. Okay.

20 Q. One of the points that can be made is to
21 look at the State's overall telephone penetration rate.
22 And you heard my statement at least --

23 A. Sure.

24 Q. -- that that is about 96.5 percent,
25 right now?

1 A. Sure.

2 Q. Your comment, however, it may be more
3 accurate to look at the penetration rate among
4 low-income households?

5 A. Yes.

6 Q. And that penetration is different. That
7 penetration rate is about 83.7 percent. Isn't that the
8 point of this testimony?

9 A. Yeah. I would think so. Yes.

10 Q. Now, have you looked at the various
11 income brackets that comprise the penetration rates in
12 data you looked at?

13 A. No. I got it straight from the USAC's
14 website who deal with low income.

15 Q. Isn't it a fact that over -- that for
16 income levels of approximately \$10,000 and above, the
17 penetration rate is consistently over 90 percent?

18 A. I am not 100 percent sure. I don't
19 know.

20 Q. Do you know whether the penetration rate
21 in the 80 percent range is fairly limited to only those
22 whose income is below approximately \$10,000?

23 A. From my understanding, no. Just based
24 on income criteria. I think FCC or USAC considers the
25 poverty level of a particular average-size family to be

1 right about \$9,000, 9,000-something dollars. They
2 allow 150 percent of that number which would put that
3 around \$13,000.

4 Q. Okay. I am not looking at the poverty
5 guidelines or what the FPG, you know, the Federal
6 Poverty Guideline criteria are. I am just looking at
7 the raw data. Isn't it a fact -- or do you know? If
8 you don't know, that is fine.

9 MR. STEINER: Bob, do you know where the
10 raw data is coming from that you are speaking?

11 MR. GRYZMALA: I am just asking him from
12 the report that you cited in your -- your report.

13 MR. STEINER: Right. Is that what you
14 are talking from? The monitoring report?

15 MR. GRYZMALA: I believe so. Yes. I
16 believe so.

17 BY MR. GRYZMALA:

18 Q. Do you know whether or not is a fact
19 that for income groups whose -- or for household whose
20 incomes are approximately \$10,000 or above --

21 A. Uh-huh.

22 Q. -- the penetration rate generally is
23 above 90 percent.

24 Do you know whether that is true or not?

25 A. I don't know if that is true or not.

1 No.

2 Q. Do you know whether it is true or not
3 for incomes below -- only those households with incomes
4 below approximately 10,000, does the penetration rate
5 start to fall into the 80 percentile ranges?

6 A. I don't know.

7 Q. Would you agree that the installation
8 charge billed monthly and the monthly rate of VCI of
9 approximately \$29 would most hard hit those incomes in
10 the under 10,000 -- would most hard hit those
11 households whose incomes are under \$10,000 a year?

12 A. No. I don't.

13 Q. Okay. Thank you. Let me ask if VCI is
14 granted ETC status in this case, would you agree that
15 would provide or represent an economic incentive for
16 prepaid wireline providers to likewise seek ETC
17 designation from the Commission?

18 A. I don't personally think so. I haven't
19 seen that trend.

20 Q. I am not asking if you seen that trend.
21 I want to ask you your professionally opinion. If ETC
22 status is granted in this case to VCI, would it not
23 represent an economic incentive for other providers to
24 likewise seek ETC status with the Commission?

25 A. No. I do not.

1 Q. You don't believe that would provide an
2 economic incentive?

3 A. No.

4 Q. Do you think they could compete just
5 well enough without Universal Service support, although
6 their rates appear to be higher by your own admission
7 than yours, and you are getting low-income support and
8 they are not. That would not represent two significant
9 factors constituting economic incentive?

10 A. No. In my opinion, no.

11 Q. Okay. Thank you. Have you ever -- has
12 VCI ever offered telephone service in Oregon?

13 A. Yes, we have. Yes, we have.

14 Q Does it any longer offer telephone
15 service in Oregon?

16 A. No. It does not.

17 Q. In December of 2006, did the Public
18 Utility Commission of Oregon Staff recommend that the
19 Oregon Commission open an investigation to investigate
20 billings, revenue and remittance reporting --

21 A. Absolutely.

22 Q. -- on VCI?

23 A. Yes. It did.

24 Q. It did. Thank you. Does -- and the
25 company thereafter sent a letter to its customers

1 entitled, VCI Company Abandonment of Service, did it
2 not?

3 A. Actually, that was in the works before
4 the investigation. But, yes. That was actually in the
5 works before the investigation and all that stuff.

6 Q. And ultimately under the letterhead of
7 the company and the reference clause: VCI Company
8 Abandonment of Service, the company decided and in fact
9 did cease to provide -- cease to provide service; is
10 that correct?

11 A. That is correct.

12 Q. Okay. Does VCI provide telephone
13 service in Minnesota?

14 A. Yes, it does. Absolutely.

15 Q. Isn't it ETC there?

16 A. Yes. It is.

17 Q. Okay. Last year, was a complaint filed
18 against VCI Company by the Minnesota Department of
19 Commerce and a division, The Residential and Small
20 Business Utilities Division of the Office of Attorney
21 General -- sorry I got confused there. Did those
22 entities file a complaint against the company in
23 Minnesota last year?

24 A. Yes. There was a complaint filed. That
25 is correct.

1 Q. Does -- and you indicated at this time
2 the company continues to offer service in Minnesota?

3 A. Absolutely.

4 Q. Your home state is Washington; is that
5 correct?

6 A. Yes, sir. Yes, sir.

7 Q. That's where you -- your 65 employees
8 are located?

9 A. Yes. Correct.

10 Q. Does VCI offer telephone service in
11 Washington?

12 A. No.

13 Q. Isn't a fact that late last year,
14 Washington, or rather VCI Company, served notice upon
15 the Washington Utility and Transportation Commission
16 that it no longer ceased -- or no longer would provide
17 service in Washington?

18 A. That's correct.

19 Q. What guarantees can you offer this
20 Commission that if it takes the opportunity to grant
21 your company ETC status, that you will, in fact,
22 deliver telephone service in this state and offer all
23 the Lifeline discounts to which your testimony refers?
24 What guarantees can be offered?

25 A. VCI has been in business almost five

1 years. We have provided service in the State of
2 Washington for four of those five years. When MCI and
3 a lot of the other local carriers backed out of the
4 market, VCI is tailor made for the low-income consumer,
5 from the billing process, how we handle the customer,
6 the educational function. I think VCI is a very good
7 fit for the Commission, for the State of Missouri and
8 if we are given the opportunity to do business here
9 we'll absolutely, positively put people on the network
10 pass through every single discount that is given to us.

11 Q. All right. Thank you. I understand you
12 reasons for supporting that answering Missouri. But my
13 question was more directed to will you guarantee to
14 this Commission, if they afford you ETC status, you
15 will, in fact, provide service within a specific period
16 of time after that ETC status is granted?

17 A. Absolutely. Absolutely.

18 Q. How long?

19 A. We have that eight-month window, is what
20 we like to call it, to get trained, to learn about the
21 products, things from the ILEC, get some advertising
22 together.

23 Q. Okay. Just a couple of other things.
24 Is the Kansas Commission reconsidering -- or rather is
25 the Kansas Commission considering now a petition for

1 rehearing regarding the ETC grant it made to VCI?

2 A. From my understanding, you guys are
3 submitting a rebuttal. I don't think the Staff or the
4 Commission is considered something different.

5 Q. Okay. Let me make sure, we understand
6 because there is some legalese going on here.

7 A. Okay.

8 Q. The issue -- the Commission did grant
9 ETC status in Kansas?

10 A. Correct. Correct.

11 Q. And there -- a petition for rehearing
12 was filed?

13 A. Correct. Correct.

14 Q. Correct?

15 A. Correct. Correct.

16 Q. And the Commission in Kansas has not yet
17 ruled on that matter?

18 A. Correct.

19 Q. Okay.

20 A. Correct.

21 Q. Very good.

22 A. Correct.

23 Q. Thank you. The 3.99, the company
24 discount -- this may have been covered, but I want to
25 make sure I heard it correctly.

1 A. Sure.

2 Q. The 3.99 company discount that's
3 referenced in your testimony, is that commitment to
4 provide the customer the 3.99 company discount
5 reflected in the VCI tariffs?

6 A. If it is not, it will be. I am not a
7 100 percent what's in the tariff now.

8 Q. So once again you agree, VCI would agree
9 that it's appropriate that that discount be reflected
10 in its tariff?

11 A. Absolutely.

12 Q. And secondarily, VCI would agree that as
13 a condition of an ETC certification, VCI would be bound
14 to reflect -- to correct its tariff to reflect that
15 extension of the company discount of 3.99.

16 A. Yes, sir.

17 Q. I got confused on a point about prepaid,
18 prepaid, postpaid. I just got lost. There is a
19 reference in your testimony, I don't have it handy.
20 But the basic point is that you bill early in the
21 month, if I recall that.

22 A. First of the month.

23 Q. Okay. Are you services billed in
24 advance or in arrears?

25 A. We bill the first of the month for the

1 current month, but payment is not received -- payment
2 is not due until the service has been used, which is
3 just like you guys do with us.

4 Q. Well, I don't know how we do it with
5 you. Let me try and get back to the consumer.

6 A. Okay.

7 Q. In an advance bill situation, you
8 receive a bill, do you not, in your mailbox as a
9 consumer, and it bills you for service that you can see
10 the dates that haven't occurred yet? They're down the
11 road?

12 A. Sure. Sure.

13 Q. Is that how VCI will bill?

14 A. Absolutely.

15 Q. Okay. That is advance billing.

16 A. Is it not prepaid.

17 Q. What is the difference?

18 A. Prepayment is monies. You give me money
19 before I give you service.

20 Q. Okay.

21 A. See, advance I give you a bill and say,
22 hey on the 30th, you owe me 15 bucks here. You had all
23 your service that month and you pay me after you've
24 used the service, so we extend credit, which is giving
25 them advance notice of what that payment will be.

1 Q. Okay. So it is not so much that your
2 service is on prepaid basis, that the customer is
3 paying for their monthly service in advance.

4 A. No. No. The customer is given a bill
5 the first of month that says at the end of this month
6 \$29 plus tax, is what you owe. So they will get to use
7 all the service during the month. They just got the
8 bill at the beginning of the month, middle of the
9 month, they get another notice. Late notice.

10 Q. Okay. Let's take a hypothetical.

11 A. Sure.

12 Q. Let's say a customer gets a bill on
13 January 1.

14 A. Yes.

15 Q. And the bill is due -- under the
16 Commission's rules you have to give the customer
17 approximately 21 days.

18 A. Absolutely.

19 Q. Okay. So the customer says, the
20 customer -- the line item says due date is January 21.
21 Right? Hypothetically.

22 A. I am sorry. Yes.

23 Q. I just added 1 plus 21.

24 A. Okay.

25 Q. Let's say January 22.

1 A. Okay.

2 Q. Okay. What does the entry say for the
3 line which indicates the customer the period of
4 service? January 1 through January 31?

5 A. Correct. We only disconnect bills once
6 a month.

7 Q. No. No. No. I just want to make sure
8 I got the service structure right.

9 A. Right.

10 Q. So on January 1, the customer is billed
11 for service which is due to be paid on January 21 --

12 A. Correct.

13 Q. -- and that represents service by
14 January, for the period of January?

15 A. That's correct.

16 Q. Okay. It is not for service that was
17 provided in December?

18 A. No. It isn't.

19 Q. Okay. That's what I wanted to clarify.
20 Thank you. Are you familiar with the Universal Service
21 Fund principle to the effect that the administration of
22 the fund must be made on a competitively neutral basis
23 among carriers and services?

24 A. Yes. I have heard some things about
25 this, yes.

1 Q. Would you -- is it competitively neutral
2 to fund a carrier that wouldn't otherwise provide
3 service unless it receives Universal Service support?

4 A. And we are talking about a Universal,
5 Universal Service Report Fund?

6 Q. Let me back up, if -- if the Commission
7 decides to deny or to decline granting VCI ETC
8 designation --

9 A. Sure.

10 Q. -- will VCI nevertheless provide service
11 in this state?

12 A. Yes. It will.

13 Q. Okay. That was -- the decision has
14 already been made?

15 A. Yes. It would just be as a prepaid
16 company. We would absolutely provide service.

17 Q. Okay. But not out of the business model
18 on which you base your ETC status?

19 A. Not as a postpaid company.

20 MR. GRYZMALA: That's all I have.

21 Thank you.

22 THE WITNESS: Thank you.

23 JUDGE STEARLEY: Thank you,

24 Mr. Gryzmala. We have been going a little bit over two
25 hours. I would like to give our court reporter a

1 little rest, so we'll take about a 10-minute
2 intermission. And we will return, Mr. Johnson if will
3 return on the stand for questions from the
4 Commissioners and then redirect.

5 THE WITNESS: Yes, sir.

6 (A RECESS WAS TAKEN.)

7 JUDGE STEARLEY: All right. We are back
8 on the record. Mr. Johnson is still on the stand. And
9 we were picking up with questions from the Bench,
10 beginning with Commissioner Murray.

11 QUESTIONS BY COMMISSIONER MURRAY:

12 Q. Good morning, Mr. Johnson.

13 A. Good morning.

14 Q. On Page 6 of your direct testimony, do
15 you -- are you there yet?

16 A. Yes.

17 Q. You reference an order from the FCC 2005
18 that sets out what a carrier requesting ETC designation
19 has to do; is that correct?

20 A. Yes, ma'am.

21 Q. And then on Page 7 of your testimony,
22 you indicate that VCI believes that most, if not all of
23 the requirements set forth in that order, apply to
24 wireless carriers and carriers that request high-cost
25 funding. Is that your testimony as well?

1 A. Yes, it is.

2 Q. So, you are distinguishing there between
3 wireless carriers and wireline carriers, and you are
4 also distinguishing between carriers that request
5 high-cost funding and carriers that only request
6 low-income funding; is that correct?

7 A. Yes.

8 Q. Now, where in the order does FCC
9 differentiate between those types of carriers?

10 A. That is an answer that I would have to
11 research. But I think -- if I remember correctly, when
12 we read through the order -- the improvements talked
13 about certain types of things that would only -- I
14 don't want to say only -- the make up of a lot of the
15 changes appear to be in a high-cost conversation. I
16 don't have the order in front of me and it has been
17 along time since I actually looked at it, truth be
18 told. So, if I remember correctly, it addressed it
19 earlier on. Talked about the direction of the order
20 and what they were trying to get in control or wanted
21 to manage it differently. It addressed high-cost, what
22 I remember. That's the reason I said that.

23 Q. Okay. So you are talking about a legal
24 interpretation of the order rather than the big order
25 specifically setting out that it only applied to

1 wireless carriers or to carriers that only request
2 high-cost -- that request high-cost funding; is that
3 correct?

4 A. That's correct.

5 Q. So I am assuming your attorney will
6 brief us thoroughly. Would you -- do you have
7 Mr. Stidham's testimony with you?

8 A. His opening statement you mean?

9 Q. His rebuttal testimony.

10 A. Yes. I have that.

11 Q. Would you turn to Page 5, please?

12 A. I am here.

13 Q. Let me see if that's exactly where I
14 want be first. Actually beginning on Page 4, he refers
15 to Commission Rule 3.570 Subsection 2C. Do you see
16 that at the bottom of Page 4?

17 A. Yes, ma'am.

18 Q. And he is talking about there, the rule
19 requiring that a carrier include in its request a plan
20 outlining the method for handling unusual construction
21 registration charges. Now, I am assuming that VCI is
22 also taking the position that Missouri rules do not
23 apply to it. Is that the position you are taking in
24 terms of the Missouri rules for ETC designation?

25 A. I would like to say VCI positions -- all

1 rules, all Missouri rules do apply to the situation,
2 but I think -- all rules apply.

3 Q. I need to go back to your direct
4 testimony.

5 A. Sure.

6 Q. At the bottom of Page 14 --

7 A. Okay.

8 Q. -- beginning at line 22. Is it accurate
9 that you say: As VCI does not own, operate or manage
10 telecommunications network and has no plans to purchase
11 or construct a network, VCI should not be required to
12 provide a plan outlining the method for handling
13 unusual construction or installation charges as
14 requested in 4 CSR-3572C.

15 A. I think what I was trying to capture
16 here is we can do a plan but considering our situation
17 being a CLEC, we don't own facilities and different
18 things, we were just simply stating the facts. We can
19 submit a plan but we don't think it will be with any
20 relevance because we don't actually own a net-- we
21 don't do that portion of the business.

22 Q. So then the next question is: Will VCI
23 submit a five-year plan that describes with sufficient,
24 with specificity proposed improvements or upgrades?
25 And then your answer to that question is no.

1 A. I'm lost. Is that Page 15? I'm sorry.

2 Q. Yes.

3 A. If the Commission would like VCI to
4 submit a five-year plan, we could absolutely do that.
5 But we were just simply laying out the landscape of how
6 we do business.

7 Q. Okay. So you are distinguishing there
8 that the Missouri rule does not apply to you because
9 you're not providing high-cost. You are not seeking
10 high-cost Universal Service Funding; is that correct?

11 A. Yes, ma'am.

12 Q. And your position is that rule only
13 applies to carriers who are seeking high-cost Universal
14 Service Support?

15 A. That is what we assumed.

16 Q. All right. So it is similar to the
17 assumption that you've made about the FCC's
18 requirements to work ETC status?

19 A. Correct.

20 Q. Is that correct? Now, I found it
21 somewhat confusing the discussions between postpaid and
22 prepaid. I think I've understood what you said about
23 the way that you would be billing if you do receive ETC
24 status. That is that you would bill the customers on
25 the first of the month for the current month for

1 services they've not yet received. But their bill
2 would be due, the payment would be due sometime during
3 that month. So it would be prior to them having
4 received the full month's service, but after they had
5 received some of the service that they had been billed
6 for; is that correct?

7 A. Almost. We send a bill on the first of
8 the month. We only disconnect one time a month, the
9 last day of the month. So a customer will receive the
10 full month of service before we ever terminate a line.

11 Q. But the customer will be required to pay
12 for that service before the full month has expired; is
13 that correct?

14 A. Some -- no. Not required. We call it
15 advance notice. Some customers do pay in advance.
16 Other customers -- I am sorry.

17 Q. That's not. I don't think -- either I
18 am not asking my question appropriately --

19 A. Right.

20 Q. -- or you are not tracking what I am
21 asking.

22 A. Sure.

23 Q. If a customer receives a bill on the
24 first of the month, what would be the due date for
25 payment?

1 A. Historically in all the states it has
2 been the 28th, right around the 28th or 29th. We
3 disconnect the 30th.

4 Q. So you don't require payment the 21st,
5 which is what I thought I was hearing earlier.

6 A. No. No. He was stating Missouri law
7 say I can't demand --

8 Q. I see.

9 A. -- before the 21st, is what he was
10 saying.

11 Q. All right. Okay. And then you said
12 that you will offer service in Missouri, although
13 you're not currently offering service; is that correct?

14 A. Yes, ma'am.

15 Q. And you indicated that you will offer
16 service whether or not you were granted ETC status; is
17 that your --

18 A. That's correct.

19 Q. So why are you not offering service now
20 on a prepaid basis?

21 A. Sure. What we've experienced with
22 SBC/AT&T, what you see in the tariff and what your
23 bills look like are very different most of the time.
24 So what we normally do is, we go in and turn on a few
25 lines, get bills back, understand how the tariff links

1 to the actually billing system. And then we provide
2 service thereafter. We just --

3 Q. You're trying to get an understanding of
4 how -- whose billing works?

5 A. SBC or AT&T. How they bill us so we
6 don't go out and fully advertise.

7 Q. All right. And your reason for waiting
8 until after this proceeding seeking ETC status before
9 you provide service at all, what is the reason for
10 that?

11 A. Well, it helps me to understand whether
12 I go out as a postpaid or a prepaid company.

13 Q. So you would prefer to go out knowing
14 which direction you are going to provide service prior
15 to offering it all?

16 A. Absolutely.

17 Q. Your tariff that is on file now, is that
18 for prepaid service or postpaid service?

19 A. I haven't and this -- I apologize. I am
20 not sure what tariff is on file right now. But the
21 tariff itself remains the same. It just -- it becomes
22 a retail rate tariff. we -- the Lifeline -- the tariff
23 we have whether postpaid or prepaid, the rates are the
24 same. It's just when we actually collect money from
25 the consumer.

1 Q. The tariff does not provide for that?

2 The billing -- I -- I can't recall if the tariff -- if
3 it's in tariff or not.

4 A. I am not very smart on -- I am not up on
5 the tariffs, but that's something I can have a
6 regulatory person put together.

7 Q. Well, is your current tariff, your
8 current Missouri tariff in the record here? Do you
9 know?

10 MR. STEINER: Your Honor, I believe it
11 is on EFIS, but it's not in the record in this case.

12 COMMISSIONER MURRAY: All right.

13 BY COMMISSIONER MURRAY:

14 Q. Now, will you be receiving -- if you get
15 ETC status in Missouri, the support you will receive
16 from USF will be for -- will it be for Lifeline and
17 Link Up only?

18 A. Yes, ma'am.

19 Q. But you will serve other customers that
20 are not Lifeline customers?

21 A. Absolutely.

22 Q. And is it your position that because you
23 have no facilities in the state and that you would be
24 providing service purely on a resale or a UNE basis,
25 that you don't have to provide service to everyone who

1 requests it?

2 A. No. We are required to provide service.
3 Anybody who requests our service, we will provide.

4 Q. What about --

5 A. Except for business lines.

6 Q. Okay. Well, the -- the requirement for
7 ETC status for high-cost funding, that you provide a
8 plan for unusually construction or installation costs.
9 Wouldn't that apply if you have to provide service to
10 anyone who request it? I mean what about a customer
11 who doesn't -- who is not currently being served who
12 request that you serve them? What do you do then?

13 A. From my understanding we are only
14 required to provide service for customers in our
15 service area in our current service areas. We follow
16 the footprint of SBC/AT&T.

17 Q. And is every customer -- every potential
18 customer in that service area currently receiving
19 service from someone or currently able -- physically
20 able to receive service from someone?

21 A. From my understanding, yes. From my
22 understanding, yes.

23 Q. And would that be currently from AT&T?

24 A. Or -- the state, from my understanding,
25 is broken down by different carriers or ILECs. Anybody

1 that follows SBC path, can get service from SBC or --
2 or a prepaid provider or whoever they get service from
3 in that area. But the facilities for the most part,
4 are available.

5 Q. Okay. Does AT&T have facilities to
6 service every customer in that area?

7 A. In area, from my understanding, yes.
8 From my understanding, yes.

9 Q. So that any customer requesting service
10 from you, you can go purchase a UNE from AT&T and serve
11 that customer. Is that your understanding?

12 A. Yeah, UNE or resale. Correct.

13 Q. Now, would you be able to resale other
14 carriers' service?

15 A. I don't have an interconnection
16 agreement or any other relationships with other
17 carriers.

18 Q. Only AT&T?

19 A. Yes, ma'am.

20 Q. The \$19 that we've talked about -- oh,
21 never mind. That question got answered. The customers
22 that you would be targeting would be low-income
23 customers; is that correct?

24 A. Correct.

25 Q. And I believe you said that typically

1 they would have been unable or they would have been --
2 had service discontinued from their own carrier,
3 presumably -- presumably AT&T for lack of payment.

4 A. That has been my experience. The
5 masses. It's been our experience.

6 Q. Now, these customers that you would be
7 servicing, would they be able to receive service from
8 AT&T?

9 A. We are not providing service in Missouri
10 right now. But in other states they have past due
11 bill, or they need to pay off a past due bill, some of
12 them require a deposit thereafter before they can
13 actually go back to the ILEC. So the bared entry can
14 be 2, 3, 400 dollars for those consumers.

15 Q. Okay. So under -- if you had ETC status
16 and you had offered service in the area and that
17 customer, they had say a \$400 bill pending, could come
18 to you and get service with no deposit, no advance
19 payment; is that correct?

20 A. And no credit check. Correct.

21 Q. And then assuming that customer defaults
22 after the first month --

23 A. Uh-huh.

24 Q. -- they owe you \$19 plus \$120 hook up?

25 A. No. The only thing they owe us is the

1 actually last bill and the monthly installment. So
2 it's \$19 plus 10. So all they owe me is \$29.

3 Q. That's if they've arrangement a payment
4 plan for their non-recurring charges of \$120; is that
5 correct?

6 A. Correct. Either they pay that all in
7 advance before or they pay a connection charge at the
8 point the service comes on or they pro-rate it over
9 terms.

10 Q. What if they didn't pro-rate it. What
11 is they just decided to pay it all in advance?

12 A. And they gave us a 120 up front?

13 Q. Uh-huh.

14 A. Correct. All they would owe us is the
15 \$19 from the previous month they didn't pay.

16 Q. So you would -- you would actually give
17 them a refund?

18 A. The connection fee, no. That's a
19 non-reoccurring charge.

20 Q. Let me try that question again.

21 A. Sure.

22 Q. Assume you have customer A --

23 A. Uh-huh.

24 Q. -- who is the same customer that had a
25 bill pending with AT&T for \$400 --

1 A. Yes.

2 Q. -- requests service from VCI --

3 A. Uh-huh.

4 Q. -- pays the \$120 non-reoccurring fee in

5 one lump sum --

6 A. Okay.

7 Q. -- signs up for service, gets billed \$19

8 for month number one.

9 A. Correct.

10 Q. Day 28, day 29, day 30 pass --

11 A. Uh-huh.

12 Q. No payment received.

13 A. Correct.

14 Q. What does VCI do?

15 A. We would disconnect the customer for

16 non-payment of their monthly service.

17 Q. On the 30th?

18 A. Yes, 30th. Yes.

19 Q. And what happens to the \$120 that the

20 customer paid as the non-occurring charge?

21 A. That was the fee that we charge the

22 customer to turn the line on. In some areas in other

23 states the connection charge that we charge by the LEC

24 ranges from \$65 to \$98, we have to pay the actual ILEC.

25 So that's a non-refundable one-time fee.

1 Q. Non-recurring and non-refundable.

2 A. Correct.

3 Q. And then if they had, had set up a
4 payment plan for that and stretched it out over 12
5 months, you would have only received \$12 --

6 A. Correct.

7 Q. -- is that correct?

8 A. That's correct.

9 Q. And you might have paid ILEC, how much?

10 A. Anywhere from \$65 to 95 -- it just
11 depends on where the customer is located, \$65 to \$95.

12 Q. And what would you do if anything to try
13 to recover that money? Would you try to work with the
14 customer to arrange a payment plan? Would you just
15 simply, on the 30th if you had not received the
16 payment, just disconnect them? What?

17 A. Correct. Well, we have a saying and we
18 call it "You can throw good money after bad." What we
19 mean by that is we have had collection teams and tried
20 to work out payment plans for past due bills with no
21 service -- if no service in the past due bill, you are
22 probably not going to get the money. So if you turn a
23 customer line off and they still owe you your
24 connection fee over terms, 9 times out of 10, you won't
25 get that money. You will pay staff and a lot of people

1 to chase bad money. You throw good money after bad.

2 So we don't go after the customer at all.

3 Q. Okay. Do you give them any kind of a
4 grace period before disconnection?

5 A. Oh, absolutely. We can disconnect them
6 on the 20th or 21st. We don't turn any phone off until
7 the 30th.

8 Q. How can you disconnect them on the 20th
9 or 21st, if their bill is not due until the 28th? If
10 their payment isn't due?

11 A. I am not clear on Missouri rules. But
12 what I think we said they have 20 days to make a
13 payment on their bill. Fourteen days in we sent a late
14 notice. Say, Hey, your bills due. We make eight phone
15 calls, eight automated phone calls to the house by the
16 30th. We give them payment options and opportunities
17 --

18 Q. The bill is actually due on the 20th or
19 21st.

20 A. No.

21 Q. The payment is due?

22 A. The payment is due no later than the end
23 of the month. They have until the 30th to make a
24 payment.

25 Q. But it is late?

1 A. That's what the notice says, late.

2 That's correct. Correct. Agreed.

3 Q. Why will it take you eight months to get
4 service provided?

5 A. Well, prior experience we have had every
6 state with the new LEC in that state there's different
7 nuances to provisioning orders to be able to guarantee
8 service to the consumer. So we actually start out
9 testing the market and slowing developing so we really
10 understand how AT&T or SBC for -- provides service to
11 us that we give to the consumer. So we spend four
12 months really trying to understand what we are giving
13 the consumer, but we can do it in less than eight
14 months. It is more like a five- or six-month curve is
15 what it is. You have the staff that you have to
16 retrain in provision orders, laws of the state.

17 Q. And if -- let's assume that your
18 application for ETC status is denied.

19 A. Uh-huh.

20 Q. When are you going to start that
21 eight-month process to provide service?

22 A. Starting next month. Starting next
23 month, the month of May. We will start to test the
24 market, get some bills in from the ILEC. Try to put
25 together the right product. And we will start to offer

1 a prepaid service.

2 Q. So you are planning to do that --

3 A. Beginning the year, for tax --

4 Q. -- beginning the first of May,

5 regardless of the outcome of this case?

6 A. Absolutely. Correct.

7 Q. And did you say that less than -- in
8 your experience in other states, less than 1 percent of
9 the customers subscribe to vertical services at all?

10 A. Correct. That we've seen. Most
11 customers call in and want service from us, just want a
12 phone in their home. We have not seen that vertical
13 feature as a huge thing.

14 Q. And it was my understanding from what
15 you said earlier, that you actually educate people
16 against subscribing to vertical services, if they are
17 low-income customers; is that correct?

18 A. Well, I think we educate people about
19 how to manage their phone. Be what you need, what you
20 don't need, if you need voicemail or a calling machine.
21 So we actually educate them on -- we give them
22 solutions to try and satisfy what they need, not
23 necessarily against vertical features. It just costs
24 money and we are not sure they can afford it.

25 Q. So you don't advertise to them or --

1 A. Up sale.

2 Q. -- promote when they are calling in,
3 that you offer a package of vertical services for a
4 certain amount or try to entice them in anyway to take
5 vertical service; is that correct?

6 A. That's correct. We've seen that to be
7 the problem for the low-income consumer. That is our
8 experience.

9 Q. You said something earlier that you
10 would do a combination of resale and UNE.

11 A. Sure. Yes.

12 Q. UNE-based. And that would be dependent
13 upon the pricing of the ILEC's of the ILEC throughout
14 the state. Can you explain that a little more? Why
15 would some areas be more cost effective for you to do
16 it on UNE basis and others on a strictly resale basis?

17 A. Sure. I'll use SBC/AT&T's description.
18 He said in some zones they're 15 cents and other zones
19 are \$6. For me that's the low Lifeline, the low-income
20 rate, what he would charge me. In a lot of states,
21 other states it could be as low as \$4 in Zone 1 and as
22 high as \$40-something in say Zone 5. The zone is
23 further away. So for me, I couldn't provide -- I
24 couldn't pay \$40 for a line in Zone 5 and charge the
25 customer 19. But I could do a resale and I provide

1 directory assistant in Zone 5 at a more affordable
2 rate.

3 Q. Okay.

4 A. So this just gives me the ability to
5 provide service throughout the service area using
6 different products. The resale line in most places are
7 \$12 or \$13, most ILEC charge me. I am sorry. Right
8 about \$12 or \$13.

9 Q. And the UNE's package would ---

10 A. It varies based on the zone. The areas
11 I could not provide UNE, I could provide a resale
12 product and still service the customer and still do my
13 fiduciary responsible to the company.

14 Q. Can you tell me once again how granting
15 VCI ETC status for being able to access low-income
16 universal Service Funding would be in the public
17 interest?

18 A. To my knowledge, there is no other
19 wireline company who is an ETC in SBC -- SBC/AT&T
20 territory. It simply gives the consumer a choice.
21 Also, the -- when we originally started this business
22 many years ago, a collegemate actually worked at all
23 the ILECs. Hundred and thousands of people get
24 disconnected from the ILEC, don't know they can come
25 back at payment plans, or think they have to pay a

1 deposit and they don't have any service at all.

2 So we are giving them a chance to have
3 more affordable service, not as cheap as the ILEC, but
4 absolutely cheaper than the prepaid people.

5 Q. What about the wireless carriers that
6 are providing service in the area. Can't those
7 customers go and also sign up for wireless coverage?

8 A. Absolute. But most of the plans with
9 wireless phone, 500 minutes can be \$30. But you still
10 can over your minutes and you end in -- end up with a
11 big bill. So yes, they can provide service, the
12 wireless carriers. But most low-income people that I
13 know of they're paying normal rates. I don't know the
14 ETC -- the area that I am current -- the areas I am
15 currently service. So I am not sure how it is here.

16 Q. Are there wireless ETCs in the areas
17 where you are seeking certification?

18 A. Yes, there are. But they've just really
19 started to -- I want to say get into the wireless or
20 the ETC wireless business.

21 Q. So, a wireless carrier who had a ETC
22 designation could offer service and provide the
23 discount?

24 A. Correct. But he still has to sell you a
25 plan, a usage plan.

1 Q. Could he offer prepaid? He couldn't
2 offer prepaid wireless and still receive the Universal
3 Service Funding for Lifeline?

4 A. I do know a couple of companies that is
5 prepaid wireless. So, ToGoPhone I think they call them
6 or something like that. Those -- the prices for those
7 phones are far more than \$29 a month from what I've
8 seen. Purchasing the unit itself and all the other
9 charges to go with that.

10 COMMISSIONER MURRAY: Okay. I think
11 that is all the questions I have. Thank you.

12 THE WITNESS: Thank you.

13 JUDGE STEARLEY: I don't have any
14 questions for you, Mr. Johnson. So I will now go to
15 recross-examination based on questions from the Bench,
16 starting with Staff. Mr. Meyer?

17 RECROSS-EXAMINATION BY MR. MEYER:

18 Q. Mr. Johnson, are you aware of whether or
19 not the wireless ETC providers are providing service in
20 all of AT&T's territory?

21 A. From my understanding of how the
22 wireless network works, you have to have spectrum in
23 the area. I don't think they are provided in a lot of
24 SBC/AT&T's area. I am not 100 percent sure, though.

25 Q. I am sorry. There was coughing on both

1 sides of me when you said that. Did you say yes or no?

2 A. I am not sure.

3 Q. Okay.

4 A. I don't think so. I am not sure.

5 Q. Mr. Johnson, you had a discussion with
6 Commissioner Murray regarding a billing cycle --

7 A. Sure.

8 Q. -- your process for disconnecting
9 payments, et cetera. Missouri has specific rules
10 governing billing and payment standards for residential
11 customers and also for deposits and guarantees payment.

12 A. Uh-huh.

13 Q. If those standards -- I assume that what
14 you were discussing with her was your standards in
15 other states?

16 A. Correct.

17 Q. If Missouri's processes and requirements
18 are different, would you agree that you would abide by
19 those?

20 A. Absolutely. One hundred percent.

21 Q. So if Missouri ruled that customers be
22 allowed 21 days for payment and then a 10-day notice
23 before disconnect, thus adding up to 31 days, you would
24 agree to abide by that?

25 A. Absolutely.

1 Q. So in that scenario -- and I realize
2 that this is not what your process is in other
3 states -- if Missouri required 21 days for payment and
4 a 10-day notice by mail, do you have a sense of when
5 then you would make the bill be due?

6 A. Is that 10 business days or is that
7 10 calendar days?

8 Q. Our rule just says 10 days advance
9 written notice. So I would guess it would be
10 10 calendar days.

11 A. Ten calendar days. So that is 21 days
12 till the bill is due.

13 Q. I believe so.

14 A. So I have to send them a bill, allow
15 21 days to elapse.

16 Q. And just for the record, our rules at
17 Chapter 33, it's 4 CSR 240-33.040 for the billing and
18 payment standards and 050 for the deposits -- and I am
19 sorry -- and 070 for discontinue. I mean, it is in
20 several different spots. I guess maybe this is
21 probably not all that productive because this is
22 somewhat -- if you agree to comply with our rules and
23 things.

24 A. Absolutely, I do. Absolutely.

25 MR. MEYER: Thank you. That's all I

1 have.

2 JUDGE STEARLEY: Any recross from the
3 Office of Public Counsel?

4 MR. DANDINO: No questions. Thank you,
5 your Honor.

6 JUDGE STEARLEY: Recross, AT&T Missouri?

7 MR. GRYZMALA: Just a couple of
8 questions, Your Honor.

9 RECROSS-EXAMINATION BY MR. GRYZMALA:

10 Q. I believe Commissioner Murray asked you
11 a question with respect to why VCI might not now be
12 offering service.

13 A. Sure.

14 Q. And you alluded to a need to review
15 AT&T's rates under the agreement you have with them,
16 et cetera, and some gear up time. Is that a fair
17 statement?

18 A. Yeah. I guess what I was trying to
19 articulate was we have a tariff. Our experience, we
20 read one rate in a tariff, but once you turn a line on,
21 you get a different type of bill back with other
22 charges.

23 Q. From the carrier?

24 A. Correct. Correct.

25 Q. Okay. Let me ask you: Do you have any

1 reason to disagree with the statement that the order of
2 approving the interconnection agreement between your
3 company and AT&T was issued on July 11, 2006 in Case
4 No. CK-2006-0446? Do you have any reason to disagree
5 with that?

6 A. No. I believe it to be true.

7 Q. Does that sound about right to you?

8 A. To my knowledge. Yeah.

9 Q. So basically the rates, terms and
10 conditions were known and approved last summer.

11 A. Sure.

12 Q. Correct?

13 A. Absolutely. Also, I would like to state
14 that --

15 Q. Well --

16 A. Yeah. You're right. I can't talk right
17 now.

18 Q. You were also asked a question in a
19 similar vein about the eight-month period. Is there
20 any particular reason why the eight months could not
21 have commenced when you filed your application in June
22 of last year and before -- or at about the same time as
23 the interconnection agreement was approved?

24 A. When we originally signed the agreement,
25 that was our first time we started doing business in

1 SBC/AT&T, so we wanted to market in Michigan first to
2 try to work out some of the nuances of Michigan first.
3 So we did start to do business in the new LEC. There
4 are CSRs and regulatory people, accounting. There's a
5 learning curve for every new LEC. It's almost like a
6 new business. We are still doing telecommunications,
7 but how we do business is different. So we did start
8 doing business in SBC territory at that time.

9 Q. You were asked a question about
10 alternative provisioning service by wireless carriers
11 of the prepaid variety, particularly. In your
12 experience, does it cost the consumer as much as \$150
13 for the wireless unit when that customer purchases
14 prepaid wireless service.

15 A. I've actually seen higher rates. I
16 have.

17 Q. Is that the norm or are you talking
18 about from time to time?

19 A. From what I have seen it's pretty much
20 the norm. I think a unit itself is \$89 -- I am sorry.
21 I will let you talk. I think it is the norm.

22 Q. You believe that, that a wireless
23 prepaid provider normally, generally, typically
24 provides not less than \$150 for just the unit itself?

25 A. The unit and to turn the unit on as

1 well. Right. The connection fee for the unit.

2 Q. Okay.

3 A. Together I think it is right around \$100
4 or \$150, from what I have seen.

5 MR. GRYZMALA: That's all I have. Thank
6 you.

7 THE WITNESS: Thank you.

8 JUDGE STEARLEY: Thank you,

9 Mr. Gryzmala. Redirect, Mr. Steiner?

10 REDIRECT EXAMINATION BY MR. STEINER:

11 Q. Thank you. Mr. Johnson, I believe there
12 has been some discussion on how VCI will provide
13 service be it resale, combination resale and UNE.
14 Whatever VCI decides to do, will VCI commit to comply
15 with the FCC rules regarding how an ETC provider must
16 provide service of its own facilities?

17 A. Yes, it will.

18 Q. I believe you had a discussion with
19 Mr. Gryzmala about Pager phone company and prepaid
20 carrier, that serves in AT&T Missouri's territory.
21 And you had a discussion about the installation charge
22 that a prepaid carrier might have. Are there other
23 charge -- up front costs that a prepaid carrier would
24 bill a first-time customer other than the installation
25 charge?

1 A. Absolutely. And in my experience, just
2 a little background, I did some consulting with some
3 prepaid carriers before we started our own company.
4 Along with your connection fee, you have your first
5 month of service as well that's due. So on the average
6 they are paying \$50 for the first month of service.
7 And let's say the connection fee is \$40-plus. Once you
8 add taxes and everything in, consumer has between, you
9 know, \$90 and \$100 up front money for one month of
10 service. It varies from state to state, but the model
11 looks like the same.

12 Q. Mr. Gryzmala also asked you about an
13 issue with the Oregon Staff. Do you recall that?

14 A. Yes. Yes, I do.

15 Q. Has the Commission entered an opinion on
16 the complaint that the Staff filed?

17 A. Absolutely not. What happened, OTAP
18 changed managers of the program.

19 Q. What's OTAP?

20 A. I am sorry. The Oregon Public Utilities
21 Commission or Oregon Telephone Assistance Program had a
22 change in management. The person that ran the program
23 for many years. And VCI was the first SLEC to do
24 business in Oregon. When one person left, the new
25 person came in, thought it would be -- because they

1 actually had 4 or 5 others apply to be an ETC later on.
2 And they just wanted to look at all the -- from my
3 understanding -- all the data and maybe AT&T, you
4 know, QWest, and Verizon, trying to make sure everybody
5 was not billing to the same customers. That is my
6 understanding. I haven't heard a verdict or anything
7 just yet.

8 Q. So there is no decision by the
9 Commission?

10 A. Absolutely not. No.

11 Q. And the Minnesota complaint that
12 Mr. Gryzmala referenced, can you tell us what that
13 complaint is about?

14 A. Yeah. We had a customer -- mind you, we
15 have been in Minnesota two and half years, maybe
16 serviced 40 or 50,000 customers. We had one customer
17 complain that we slammed him. We had customer's birth
18 date, Social Security number, mother's maiden name.
19 The rep, the CSR customer rep who took the order
20 inverted -- during the actual third-party verification,
21 anytime we convert a customer -- she inverted the
22 numbers, so we couldn't actually find the actual voice
23 verification for the consumer.

24 But we actually put new rules, actually
25 new processes in place in our company and that

1 particular employee is no longer with us.

2 Q. I believe Commissioner Murray took you
3 through a couple of scenarios where a customer pays the
4 \$120 connection fee up front --

5 A. Sure.

6 Q. -- versus paying it \$10 a month over a
7 year. Which is the more common scenario with the
8 customers that you have?

9 A. Again, we have been in business four and
10 half years and hundreds of thousands of customers. I
11 have only seen or heard of one or two, maybe three
12 customers that actually paid it. It's installment in
13 the beginning. Two of those were payees for someone
14 who couldn't take care of their own bills. So --

15 Q. I am sorry. I am unclear. It is only
16 two customers that paid the \$120 up front. Is that
17 what you are saying?

18 A. Correct. Correct.

19 Q Mr. Johnson, if -- there has been some
20 discussion on the Lifeline rate of \$19.

21 A. Yes.

22 Q. If the company is granted ETC status,
23 will it commit to spell out the discounts that the
24 customers are entitled to so that the Lifeline rate is
25 19 in its tariff?

1 A. Yes, it will.

2 Q. I believe you were asked by Commissioner
3 Murray about why granting VCI's application would be in
4 the public interest. One of the factors in the public
5 interest is the possible detriment to the State and
6 Federal USF funds. What is your opinion on granting
7 VCI's application with that aspect of the public
8 interest test?

9 A. I believe our impact on the fund will be
10 minimal. Currently we have about 50, 55,000 customers
11 in 10 states. And most of our customers -- I believe
12 the last time we did a little study, was like 78 or 79
13 percent of our customers had had service from the ILEC
14 at some period of time prior to coming to us.

15 MR. STEINER: That's all I have. Thank
16 you.

17 JUDGE STEARLEY: Thank you, Mr. Steiner.

18 COMMISSIONER MURRAY: Judge, can I? I
19 am sorry. May I just --

20 JUDGE STEARLEY: Certainly.
21 Commissioner Murray go right ahead.

22 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

23 Q. I apologize. I hope this won't lead to
24 another round, but in terms of the public interest
25 aspect of this, if -- we ran through a scenario earlier

1 where a customer owed \$400 to the incumbent --

2 A. Uh-huh.

3 Q. -- and couldn't get reconnected without
4 paying that.

5 But then VCI comes along and says we
6 will offer you service and all you have to pay us right
7 now is \$12, which is 1/2 of the non-recurring fee. And
8 then at the end of the month, you will owe us another
9 19; is that right?

10 A. No. I think -- there is no money up
11 front for a consumer who signs up for VCI. We bill in
12 the arrears. We turn the line on with no money up
13 front.

14 Q. Okay. So let's take the scenario that
15 way. This customer who owes \$400 and it is a
16 low-income customer. Correct?

17 A. Sure.

18 Q. So that -- they have been receiving
19 service with a Universal Service supplement for
20 Lifeline.

21 A. Uh-huh.

22 Q. Now, they turn around to VCI and say,
23 okay, I want service from VCI. And at the end of the
24 first or second month they don't pay their bill. So
25 they get disconnected from VCI, but in the meantime we

1 draw some more Universal Service Fund support for that
2 customer, who is basically receiving service for
3 nothing; is that correct?

4 A. That is correct. If I could elaborate
5 on that a little bit, Missouri puts in more money into
6 the fund than it draws out. There is no refund at that
7 level, so all of the extra funds or access funds that
8 are not used goes to support states like California,
9 Colorado, who overspend the fund. So in my mind a
10 Missourian having phone service and using USF funds,
11 in my mind I think that is what the people in Missouri
12 pay for. That's how I see it. But yes, to your
13 question.

14 Q. And so long as there are carriers that
15 have ETC status who can offer service to this customer
16 in a manner such as you would offer it -- I mean, if
17 there were a dozen carriers like you out there, this
18 customer could keep doing the same thing over and over
19 and have a service for a long time without ever paying
20 a bill; is that right?

21 A. I think that landscape currently exists.
22 Companies like SBC and other companies have win back
23 program, where they go and convert your customer and
24 give a month of service free or two months of service
25 free or a \$20. I think we are already living in that

1 environment now.

2 Q. I am sorry. I don't -- I don't
3 understand how that compares to a customer who just is
4 not paying bills.

5 A. We have had customers in my experience
6 who actually don't pay bills. They actually -- they're
7 on QWest, and Verizon offers them \$20 to convert from
8 QWest to them and the first month is free. Yes, a
9 customer can bounce around even without ETC status and
10 get service for free, is basically what I was trying to
11 say, without our company providing it.

12 Q. Okay. I see that as apples and oranges.
13 But --

14 A. To answer your question, yes. If you go
15 from carrier -- but they have to pay the connection fee
16 though. The connection fee is one lifetime benefit
17 unless you move addresses. So if a company is with
18 SBC, I am sorry, and received the discounted connection
19 fee, they could only get that once in a lifetime unless
20 they move to another address.

21 Q. And what is the discount on the
22 connection fee?

23 A. It's \$30 from my understanding.

24 Q. Okay. So this customer that I run this
25 hypothetical on would not then be able to go

1 subsequently to another carrier and connect with the
2 discount?

3 A. Correct. Lifeline is free, but Link Up
4 they have to pay on their own at that time.

5 Q. Okay. So wouldn't the low-income
6 customer that you're seeking that goes AT&T were unpaid
7 services --

8 A. Uh-huh.

9 Q. -- wouldn't that customer have been
10 likely to have used the Link Up?

11 A. Most of them have used the Link Up.
12 That is correct.

13 Q. So that Link Up wouldn't be available to
14 that customer then to get service from you; is that
15 correct?

16 A. Only if they live at another address.
17 If they moved address, they could actually get the Link
18 Up again.

19 Q. Okay. So that customer might have
20 \$150 --

21 A. Correct.

22 Q. -- fee to connect ---

23 A. Correct.

24 Q. -- non-reoccurring.

25 A. Correct.

1 COMMISSIONER MURRAY: Okay. Thank you.

2 THE WITNESS: Thank you.

3 JUDGE STEARLEY: Any re-cross based on
4 Commission Murray's questions? Staff?

5 MR. MEYER: No questions, your Honor.

6 JUDGE STEARLEY: OPC?

7 MR. DANDINO: No questions, your Honor.

8 JUDGE STEARLEY: Mr. Gryzmala?

9 MR. GRYZMALA: One question, your Honor.

10 FURTHER RE-CROSS-EXAMINATION BY MR. GRYZMALA:

11 Q. Commissioner Murray talked with you
12 about a scenario in which a customer might have been
13 disconnected for non-payment with AT&T Missouri,
14 applies for service with VCI. And I think the point
15 you made, if I recorded it correctly, is that there
16 could be a scenario in which you would have received no
17 money for having turned that customer on and providing
18 that customer telephone service before they defaulted
19 on their bill. Correct? That could happen?

20 A. From the consumer, yes. Absolutely.

21 Q. I remember the phrase you could receive
22 no money. Correct?

23 A. Absolutely, from the consumer.

24 Q. In which case it would be possible for
25 that customer to yet again seek telephone service

1 through another carrier of whatever variety. Prepaid
2 provider or another. Correct?

3 A. Absolutely.

4 Q. Let me ask you: Is the public interest
5 better served by permitting a customer to hop from one
6 carrier to the next, supported by public funds, when
7 the customer could return to the incumbent carrier or
8 the first carrier and arrange mutually agreeable
9 payment plan on his past-due amount?

10 A. I have a two-fold answer. I think if I
11 look at it tops down, Missourians pay into a fund
12 that's non-refundable. Anybody who is not an ETC who
13 is serving that customer will not draw on monies set
14 aside for that particular need. So in my mind, it
15 serves the public interest to help low-income consumers
16 to have phone service. The position that you gave me,
17 you are correct. I would in a perfect world would love
18 for them to go back and an arrangement is made that
19 they can make installment payments and be given another
20 opportunity when they fall off the wagon. In a perfect
21 world I would say both. In public interest, if
22 everybody's paying into a fund, I think the people who
23 it was intended to should benefit from it. That is
24 what I think the people's interest is in my mind.

25 MR. GRYZMALA: Thank you.

1 JUDGE STEARLEY: Any redirect,
2 Mr. Steiner?

3 FURTHER REDIRECT EXAMINATION BY MR. STEINER:

4 Q. In response to Commissioner Murray, she
5 had a scenario where there would be multiple ETCs where
6 customers could sign up and get service. Are there up
7 front cost for a company to get ETC status?

8 A. Yes. Just attorney fees and, you know,
9 writing all -- all -- every -- we estimate -- we put
10 aside maybe \$25,000 to get an ETC from the State.
11 Attorney's fees, operational time. And there is
12 up-front costs for us just to go for the certification.

13 Q. And Mr. Gryzmala's question about the
14 public interest, not all of your customers are -- fall
15 under the category of carrier hoppers; is that correct?

16 A. No. Not all of our customers are
17 carrier hoppers, to my knowledge. No, they don't.

18 MR. STEINER: That's all I have, thanks.

19 JUDGE STEARLEY: Thank you, Mr. Steiner.
20 Mr. Johnson, thank you for your testimony. You will be
21 allowed step down at this time. You may be recalled
22 later. I believe Commissioner Appling, this afternoon
23 may have a couple of more questions for you. If you
24 are recalled, I will remind you at that time that you
25 will still be under oath.

1 THE WITNESS: Thank you, sir.

2 JUDGE STEARLEY: Thank you. At this
3 point it looks like a very good time to break for
4 lunch. Why don't we break and we will reconvene at
5 approximately one o'clock.

6 MR. STEINER: Do you have a lot of cross
7 for Staff?

8 MR. MEYER: Very little.

9 MR. STEINER: I wouldn't mind trying to
10 push through. But --

11 JUDGE STEARLEY: If all the parties wish
12 to do that, that's certainly fine with me.

13 MR. GRYZMALA: How about our court
14 reporter?

15 COURT REPORTER: I am fine.

16 JUDGE STEARLEY: All right. Are you
17 okay, Lisa? Hopefully by the time we get through other
18 witnesses, maybe he will be back. I am not 100 percent
19 sure he will be, though.

20 MR. STEINER: That is just a suggestion,
21 your Honor. If it is better to take a break that's
22 fine.

23 JUDGE STEARLEY: I tell you what, why
24 don't we go ahead see where we are with our other two
25 witnesses. If Commissioner Appling hasn't returned at

1 that time, we will take a short recess. See if we
2 can't round him back up, to see -- just to make sure he
3 doesn't any further questions for Mr. Johnson. If
4 that's the case then, Mr. Meyer, you may call your
5 witness.

6 MR. MEYER: Staff calls Walt Cecil. We
7 have also one piece of pre-trial testimony.

8 COURT REPORTER: He took the other one
9 with him. He had to refer to it. The witness has it.

10 MR. JOHNSON: Oh, I took it. I'm sorry.

11 COURT REPORTER: Yeah.

12 MR. JOHNSON: I am sorry.

13 COURT REPORTER: It's the one -- that's
14 it. Sorry about that.

15 MR. JOHNSON: That's okay.

16 JUDGE STEARLEY: We will be marking
17 Mr. Cecil's rebuttal as Exhibit No. 3.

18 (EXHIBIT NO. 3 WAS MARKED FOR
19 IDENTIFICATION BY COURT REPORTER.)

20 JUDGE STEARLEY: And Mr. Cecil, I am
21 going to swear you in. Please raise your right hand.

22 (Witness sworn.)

23 JUDGE STEARLEY: You may proceed,
24 Mr. Meyer.

25 MR. MEYER: Thank you.

1 WALTER CECIL testified as follows:

2 DIRECT EXAMINATION BY MR. MEYER:

3 Q. Mr. Cecil, did you prepare that pre-file
4 testimony in this case which as been previously marked
5 for identification as Exhibit 3?

6 A. That's not mine. Yes, I did. It's this
7 one. Yes, I did.

8 Q. Do you have any corrections or additions
9 to make to your pre-file testimony at this time?

10 A. I do not.

11 Q. Are the answers that you provided true
12 and accurate to the best of your knowledge and belief?

13 A. Yes, they are.

14 Q. So if I would ask you those questions
15 again today, would your answers still be the same?

16 A. Yes, they would.

17 MR. MEYER: I would offer Exhibit 3 into
18 the record and tender the witness for examination.

19 JUDGE STEARLEY: Any objections to the
20 admission of Exhibit No. 3?

21 Hearing none, it shall be received and
22 admitted into evidence.

23 (EXHIBIT NO. 3 WAS RECEIVED INTO
24 EVIDENCE.)

25 JUDGE STEARLEY: We will begin

1 cross-examination with VCI. Mr. Steiner?

2 MR. STEINER: No questions, your Honor.

3 JUDGE STEARLEY: Office of Public
4 Counsel?

5 MR. DANDINO: Just a couple, your Honor.

6 CROSS-EXAMINATION BY MR. DANDINO:

7 Q. Mr. Cecil, did you check with the states
8 of Oregon, Washington and Minnesota concerning any
9 investigation concerning VCI?

10 A. I did contact Oregon. I attempted to
11 contact Washington. Did not actually make contact. I
12 did not contact Minnesota.

13 Q. Did you contact any other state that
14 they do business in -- VCI does business in, concerning
15 any problems or complaints or anything like that?

16 A. I surfed various Commissions' websites
17 looking for information and did not find any.

18 Q. Okay. Do you know if there has ever
19 been or any of those -- the three complaints with
20 Oregon, Washington, and Minnesota involved incorrect or
21 improper billing of USF funds?

22 A. In Oregon there was allegations filed by
23 the staff, a complaint filed by the staff, that VCI had
24 billed two or three times. But at this point the
25 investigation is proceeding and I don't know what the

1 status is of the investigation. The information that I
2 have is that it may be an error by the administrator
3 more than an error by VCI. I do not know which.

4 MR. DANDINO: That's all I have, your
5 Honor. Thank you. Thank you.

6 JUDGE STEARLEY: Thank you,
7 Mr. Dandino. AT&T Missouri, Mr. Gryzmala?

8 MR. GRYZMALA: I just have a couple
9 things, your Honor.

10 CROSS-EXAMINATION BY MR. GRYZMALA:

11 Q. Mr. Cecil, good morning. Hi.

12 A. Good morning.

13 Q. Sorry, I just turned my mic on.

14 A. Good morning.

15 Q. You would not have any information as to
16 whether the violations which led to the Minnesota
17 matter were in fact multiple rather than isolated; is
18 that correct?

19 A. I have no information regarding
20 Minnesota, I am sorry to say.

21 Q. You not only were not able to contact
22 them, you have no information at all about them?

23 A. With respect to Minnesota, that's
24 correct.

25 Q. Okay. Let me ask just a few things on

1 your testimony. I will refer you to Page 3, the
2 reference that appears at Line 2 and 3, where the
3 company expects to begin providing service within eight
4 months. Do you see that language?

5 A. Yes, sir.

6 Q. So your recommendation considered the
7 fact that we have an applicant without a previous
8 provisioning track record in the State of Missouri.
9 Correct?

10 A. Yes.

11 Q. Okay. At Page 3, same page, sir, Lines
12 18 to 20. The statement appears that service
13 subscription fees at the level proposed by VCI may not
14 be in the public interest for Lifeline customers. You
15 concluded that as well?

16 A. Yes, I did.

17 Q. Okay. And Page 4, Line 6 and 7. You
18 likewise were aware of -- I'll quote from Page or
19 Line 6, "Press releases indicating VCI is ceasing to
20 provide service in two of its markets." Correct?

21 A. Yes. Yes.

22 Q. So when you made the recommendation that
23 you made, it was taken into account by you that to the
24 extent that VCI was permitted to offer service here, it
25 could possibly cease providing that service after it

1 started up. Correct?

2 A. Yes, sir. That is true for any carrier.

3 Q. Okay. And at that time as your
4 testimony goes on to state on Page 8, you had several
5 questions on how the service subscription fee would
6 handled at that time. Lines 8 and 9.

7 A. I though you said Page 8.

8 Q. No, I may have. I am sorry. On Page 4
9 still, Lines 8 and 9, is it fair to state that when
10 this recommendation was prepared, you at that time had
11 several questions outstanding or how the service
12 subscription fee would be handled?

13 A. Yes, sir.

14 Q. Okay. And notwithstanding those
15 questions and the considerations we just raised in the
16 testimony here, your recommendation was to grant the
17 ETC application; is that correct?

18 A. Yes, sir.

19 Q. Okay. Now on Page 6, you have a series
20 of bullet points. And I guess -- I gather the upshot
21 of those is that the bullet points are the portions of
22 the Commission's ETC ruling which you regard as being
23 squarely applicable to VCI. Correct?

24 A. Yes, sir.

25 Q. All right. One of those bullet points

1 is Subpart 2A-10 which requires, as your testimony
2 states, a commitment to offer local usage plan
3 comparable to that offered by the ILEC and more
4 specifically a commitment to provide Lifeline and Link
5 Up rates comparable to the incumbent. Is that your
6 testimony as it appears on that page?

7 A. Yes, sir.

8 Q. Okay. Your testimony does not undertake
9 that analysis, does it?

10 A. Not with respect to the ILEC, no.

11 Q. Thank you. Let me ask you, if I might
12 ask you to assume -- well, let me back up. Mr. Cecil,
13 you have heard the testimonies that have come in this
14 morning?

15 A. Yes, I have.

16 Q. So, I'll -- a monthly rate of \$19,
17 you've heard that discussion, VCI's monthly rate of
18 \$19?

19 A. Yes.

20 Q. Okay. And you're aware of Mr. Stidham's
21 testimony which referred to AT&T Missouri's Lifeline
22 rates as ranging from 15 cents up to 5 or \$6, depending
23 on the exchange; is that correct?

24 A. Yes.

25 Q. You are aware of that?

1 A. I have seen it on this testimony.

2 Q. Would you regard those ranges as
3 comparable? Those rates as comparable? Excuse me.

4 A. They are very different.

5 Q. Okay. Let me ask you, if you were to
6 assume that we were referring to a monthly rate of not
7 \$19 but \$29, recall that was the number the one derives
8 as the bases of adding 19 to \$10. The \$10 being the
9 installment fee billed over 12 months.

10 A. Yes, sir. Yes, sir.

11 Q. Would you regard them as being even more
12 different?

13 A. They would be more different.

14 Q. And likewise, not comparable.

15 A. Well, I believe that the -- that the
16 rates are different but the plans are comparable. But
17 I don't believe anything requires anything to be
18 identical or even equal.

19 Q. I don't disagree. My point was not
20 that, however, sir. Your testimony states at Page 6,
21 that the Commission's rule, which represents the law,
22 states that the commitment must be made to provide
23 rates comparable to the ILEC. Does that accurately
24 state the Commission's rule?

25 A. I believe it does. Yes.

1 Q. Okay. Does your analysis identify or
2 conclude that \$29 a month is comparable to a range of
3 15 cents to \$6 per month?

4 A. They are different.

5 Q. Does your analysis conclude that they are
6 comparable?

7 A. I think --

8 Q. Strike the question.

9 Does your stated testimony anywhere
10 conclude that they are comparable?

11 A. No.

12 Q. Thank you. I will represent to you, as
13 you may identify as Mr. Stidham's testimony, that the
14 Lifeline non-reoccurring charge of AT&T Missouri is
15 approximately \$17.26. Do you recall that discussion?

16 A. I am sorry, I don't.

17 Q. Okay. I will represent that to you as
18 testimony. And if it's incorrect, Mr. Meyer, can take
19 him on cross. But would you regard connection charges
20 of \$120 versus \$17.26 as comparable?

21 A. I think that connection charges of \$120
22 is high.

23 Q. Do you regard the connection charges of
24 120 versus \$17.26 as comparable?

25 A. Well, they can't be compared. I am

1 struggling with the definition of comparable.

2 Q. In your common understanding of the
3 terms, would you regard those two numbers as
4 comparable?

5 A. Yes.

6 Q. Do you agree that a basic tenet of the
7 Universal Service support is that it should be
8 administered in a comparatively neutral manner?

9 A. It should be administered in a
10 competitive and neutral manner, yes.

11 Q. How can it be competitively neutral to
12 fund a carrier that might not otherwise provide service
13 in absent of Universal Service support?

14 A. I am not so sure that there is
15 competition in the sense that I perceive you to be
16 meaning. What I am concerned about and what the
17 substance of my recommendation is concerned with, is
18 ensuring that as many eligible telecommunications
19 customers as possible can receive the benefits of this
20 program.

21 Many customers will not choose to go to
22 AT&T for whatever reason. I do not understand why. I
23 do agree that your rates are the lowest. A savvy
24 customer will look for the lowest rates. But for
25 whatever reason, the customers have their own emotional

1 reasons as well simply failed to do their homework.
2 But that doesn't negate the existence of the plan or I
3 believe the State's obligation to extend those benefits
4 to those customers.

5 Q. I appreciate the response Mr. Cecil.
6 But let me ask you, if I may: Assuming that the rule
7 currently in place is the rule and represents the law,
8 is it not a better course to seek to amend the rule
9 than to seek to distinguish it in a specific case?

10 A. The rule refers to the plan. And I'm
11 not really certain that I am the person to be
12 discussing amending a rule.

13 Q. But do you not agree, that the basis on
14 you vested your recommendation to grant ETC status is
15 contrary to the provision of the rule?

16 A. The rates are not equal. That does not
17 make them incomparable. I believe that the rule allows
18 for an ETC status to bestowed on VCI.

19 Q. That's now what my question was. The
20 way I understand your direct testimony or your rebuttal
21 testimony -- please tell me that if I am wrong -- is
22 that the basis of your recommendation stands
23 principally upon the need to allow subscribers seeking
24 service from VCI an opportunity to do so because of
25 some reason or circumstances you say on Page 7, that

1 inhibits or prohibits them from seeking or requiring
2 service from AT&T, and that if granted ETC designation,
3 VCI would be the only prepaid competitive local
4 exchange provider offering low-income discounts.
5 Correct?

6 A. I made that statement. Yes.

7 Q. Okay. With regards to the status of VCI
8 relative to prepaid competitive local exchange
9 providers, that's not consideration that is squarely
10 identified in the rule. Correct?

11 A. I think you are losing me. Are you
12 saying that I should not be making comparison with
13 CLECs but strictly with AT&T, the ILEC. Is that your
14 question?

15 Q. I am asking does the rule allow for a
16 comparison of rates, terms and conditions to any
17 carrier other than the ILEC? And if so ---

18 A. The rule has explicitly referenced a
19 comparison with the rates, terms and conditions of the
20 ILEC.

21 MR. GRYZMALA: All right. Thank you. I
22 have no further questions.

23 JUDGE STEARLEY: Thank you,
24 Mr. Gryzmala. Questions from the Bench, Commissioner
25 Murray?

1 COMMISSIONER MURRAY: Thank you.

2 QUESTION BY COMMISSIONER MURRAY:

3 Q. Good morning, Mr. Cecil.

4 A. Good morning. Afternoon.

5 Q. Afternoon. Excuse me. In terms of the
6 requirements for -- well, let me ask you this: Is it
7 your position that the requirements are different for
8 wireless carriers seeking ETC status than for wireline
9 carriers seeking ETC status?

10 A. I think there are some additional
11 requirements that have been imposed on wireless
12 carriers.

13 Q. Okay. Is it your position that the
14 requirements are different for carriers who are seeking
15 low-income funding and not high-cost funding from those
16 who are seeking high-cost and low-income universal
17 Service support?

18 A. Pardon me. As I read the rule, I
19 understand that several parts of it are explicit in
20 their applicability to the high-cost support mechanism.
21 Those parts of the rule that I believe applicable to
22 VCI, don't appear to reference exclusively to
23 high-cost. Therefore, I believe that there is room to
24 distinguish for this other kind of carrier which would
25 only seek to offer Lifeline low-income support

1 services.

2 Q. Okay. Let's go to Page 6 of your
3 testimony. And there you set out at the top of the
4 page the -- what you consider the applicable sections
5 of our rule; is that correct?

6 A. Yes, ma'am.

7 Q. All right. Now, I want to be clear
8 here. It appears to me that you've said all those were
9 applicable to VCI?

10 A. Yes, ma'am.

11 Q. And yet it appears to me that you are
12 saying they've only complied with three of those, 1, 2,
13 3, 4, 5, 6, 7, 8, 9, 10 requirements.

14 A. Well, what I did not see in their
15 application or their testimony was a concession or
16 commitment. It wasn't so much that they had not
17 complied given that they are not offering service, but
18 they had not explicatively committed to complying.
19 That was what I was looking for at the time.

20 Q. Has that changed?

21 A. In the rebuttal testimony, they have
22 explicitly stated that they would commit to the various
23 portions of the rule. Yes, ma'am.

24 Q. All right. Now, have they committed to
25 keep records of customers complaints, for example, in

1 accordance with 3.570-3E?

2 A. I certainly hope my memory is not
3 failing, but I read Mr. Johnson's rebuttal testimony
4 yesterday and this morning, and I believe I did read
5 that there. Yes, ma'am. I believe they have made that
6 commitment.

7 Q. Okay. And it is your testimony that VCI
8 has demonstrated that if the Commission grants their
9 request for ETC designation it is in the public
10 interest?

11 A. As -- at this point since they are not
12 active in the State of Missouri, their demonstration
13 can be no more than argument put forth but it seems
14 reasonable. And I believe that it is something at this
15 point in time that could be relied upon.

16 Q. Did I also hear you say in an answer to
17 Mr. Gryzmala, that the Lifeline and Link Up rates to be
18 provided by VCI are not comparable to those provided by
19 AT&T?

20 A. Well, I think anything can be compared,
21 that's why I am struggling with that word. They're not
22 equal. They're not the same. And they're very
23 different. I would not choose VCI if I were in that
24 service, looking at the differences in the rates. But
25 whether or not we can say that they are not comparable,

1 I think depends on the definition of comparability.

2 And I apologize for splitting hairs here.

3 Q. On Page 7 of your testimony, you say
4 that VCI would be the only prepaid competitive local
5 exchange provider offering low-income discounts. Did
6 you hear Mr. Johnson's explanation of how they would
7 provide service?

8 A. Yes, ma'am. I did.

9 Q. Do you still consider them a prepaid
10 competitive local exchange provider?

11 A. Well, they're not asking for credit
12 check. They're not asking for a deposit. Their rates
13 structure is very similar if not identical to that of
14 other explicitly prepaid providers. And although he
15 says he is billing in arrears, he also made the
16 statement if he is not granted ETC designation, he will
17 come into the State of Missouri as a prepaid carrier.
18 So I would still defend my characterization as
19 accurate.

20 Q. And to your knowledge, is there anything
21 in the federal requirements or the Missouri
22 requirements that would prevent a prepaid carrier from
23 being designated an ETC?

24 A. No, ma'am. I am aware that Kansas
25 recently found -- found in its power to designate VCI

1 an ETC carrier. I am aware that AT&T is requesting a
2 rehearing, but nevertheless, Kansas found that there
3 was room somewhere in its own rules or the federal
4 rules to grant that. And I am also aware that New York
5 did the same thing recently. Given that those two
6 states come to mind at the moment, I think that this
7 Commission could find that it is feasible under the
8 federal and its own rules to do the same.

9 Q. I was just noticing on Page 3 of your
10 testimony, you talked about VCI's current tariff
11 subscription fee, the \$300, but having filed a revision
12 in January reducing that to \$150; is that correct?

13 A. Yes, ma'am.

14 Q. And if we grant VCI ETC status would
15 there be anything to prevent them from coming in and
16 changing their subscription fee to \$300 or something
17 comparable again?

18 A. They could raise their subscription fees
19 to \$300, but the federal rules only allow the support
20 for Link Up to be 50 percent capped at \$30. So if they
21 were to raise their subscription fee to \$300, the
22 federal rule would not allow them \$150 recovery for
23 Link Up. It would be \$30. So their subscription fee
24 for Lifeline customers would effectively become \$270.
25 I can't conceive of anybody being willing to cough up

1 that much money when they can find a prepaid carrier
2 asking for \$40, not to mention that I think Staff would
3 probably file a complaint.

4 Q. Go through that 50 percent again. I
5 didn't follow that.

6 A. The rules -- the federal rules governing
7 Link Up allow a carrier to recovery the Link Up costs
8 up to 50 percent of their customary subscription rates,
9 capped at a maximum of \$30. So in VCI's current --
10 with VCI current rate of \$150, the half would be that
11 you could potentially argue that they could recover \$75
12 from the federal Link Up support. But the rule then
13 caps that support at \$30. So all they could actually
14 recover from the federal program is \$30, not half.

15 Q. Okay. But it doesn't prohibit them from
16 charging the higher amount.

17 A. No.

18 Q. It is just they can't collect it from
19 the USF.

20 A. That is my understanding.

21 Q. Okay. Then on Page 4, you indicate that
22 Staff has several questions on how the service
23 subscription fee will be handled for instance. Will
24 customers have to pay another service subscription fee
25 with its new telecommunications provider? Will

1 customers receive additional Lifeline benefits from
2 their new provider? And indicated that Staff has
3 submitted DRs seeking answers. Did you get your
4 answers?

5 A. I did. I did.

6 Q. And did that satisfy those concerns?

7 A. Yes. Their answers were satisfactory.
8 Yes, ma'am.

9 Q. And how will the subscription, service
10 subscription fee be handled --

11 A. If VCI exits the marketplace, they'll
12 write off -- according to their Data Request response,
13 they would write off the existing balance due by the
14 customer. Unfortunately, the customer would then have
15 to find service from another carrier. And according to
16 another Data Request response filed by AT&T, they would
17 have to pay another connection charge. However, AT&T's
18 connection charge is lower. And I reference AT&T
19 because they are the only ETC in the area at the
20 moment.

21 They could, of course, upon
22 self-certification receive their Lifeline service.
23 That would not be the issue. It would be an issue.

24 Q. That was the only other issue you raised
25 about the Lifeline benefits. Correct?

1 A. Yes, ma'am.

2 Q. Now, this would be the first time that
3 Missouri would have granted ETC status for the purpose
4 of low-income Universal Service support only; is that
5 correct?

6 A. Yes, ma'am. It is.

7 Q. And although -- I am assuming that you
8 didn't find anything specific in either our rules or in
9 the federal -- in the FCC requirements that clearly set
10 out that the carrier can apply for that limited
11 purpose; is that correct?

12 A. Yes, ma'am. I did not find anything
13 either explicitly stating that they could or that they
14 could not.

15 Q. Do you know of any other states that
16 have denied granting ETC for purely low-income?

17 A. No. I don't know of any states that
18 have done that.

19 COMMISSIONER MURRAY: Thank you.

20 JUDGE STEARLEY: Re-cross, Mr. Steiner?

21 MR. STEINER: Just briefly.

22 RE-CROSS-EXAMINATION BY MR. STEINER:

23 Q. I think you talked about to Commissioner
24 Murray that this will be the first time ETC status for
25 low-income support only. Are you familiar with the

1 Pager and Phone Company, do they have ETC status?

2 A. They do, but not on a AT&T-wide basis.

3 Their's is very narrowly focused.

4 Q. Do they serve outside of AT&T territory?

5 A. I am not aware that they do. No.

6 Q. And does Pager ever receive high income
7 support -- excuse me, high-cost support?

8 A. I don't know.

9 (REPORTER'S NOTE: At this time an
10 in-camera session was held, which is contained in
11 Volume 3, pages 161 through 162.)

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1 JUDGE STEARLEY: Thank you, Mr. Steiner.

2 Office of the Public Counsel, Mr. Dandino?

3 MR. DANDINO: Thank you, Your Honor.

4 RE CROSS-EXAMINATION BY MR. DANDINO:

5 Q. Mr. Cecil, do you know if Pager Company
6 was -- is receiving USF as a prepaid company?

7 A. Mr. Dandino, I didn't deal with the
8 Pager Company except from a very great distance. And
9 so I really know very little about the Pager Company.
10 In fact, I have exposed all that I do know. So I am
11 afraid I can't answer your question.

12 Q. So it would be better for the Commission
13 to look at whatever decision was made granting them ETC
14 status?

15 A. There are Staff members in the room that
16 actually have more knowledge about that than I do. It
17 might be to their advantage to call on them to the
18 stand. I am reluctant to volunteer them for that
19 thought.

20 Q. Rather than ratting out your fellow
21 employees, it would be better to look at the
22 Commission's own orders?

23 A. Yes, sir. I think so.

24 MR. DANDINO: Thank you.

25 JUDGE STEARLEY: Anything else,

1 Mr. Dandino?

2 MR. DANDINO: That's all, your Honor.

3 JUDGE STEARLEY: Thank you.

4 Mr. Gryzmala?

5 MR. GRYZMALA: No, your Honor. Thank
6 you.

7 JUDGE STEARLEY: Redirect?

8 REDIRECT EXAMINATION BY MR. MEYER:

9 Q. Mr. Cecil, based on everything you said
10 today your recommendation remains positive with respect
11 to this application; is that correct?

12 A. Yes, it does.

13 Q. And you've done additional investigation
14 since you filed your rebuttal testimony regarding the
15 complaints. We have heard some of that discussed
16 today. Other concerns, you expressed in your
17 testimony, you talked to Commissioner Murray about;
18 isn't that correct?

19 A. Yes, we have.

20 Q. And you've gotten all those answers?

21 A. Yes, I have.

22 Q. And your recommendation has not changed?

23 A. It has not.

24 Q. Okay. That's is why you did not file
25 additional testimonies?

1 A. That is correct.

2 Q. There was some discussion of the bullet
3 point that you have on Page 6 of your rebuttal
4 testimony, referencing Subsection 10 of 3.570-2A-10.

5 A. Yes.

6 Q. And what you put there was intended to
7 be a paraphrase?

8 A. Yes, it was.

9 Q. What the rule says would actually be
10 what you were looking at when you were doing your
11 analysis?

12 A. Yes.

13 Q. Okay. So when you did your analysis,
14 you considered the rule, have references beyond rates
15 to consider?

16 A. Yes, I did. It does.

17 Q. Do you remember what else you looked at
18 when you did that comparison?

19 A. For that specific bullet point, I was
20 trying to just be very brief. And I'd have to look at
21 the rule. If you would give me a moment, what I was
22 trying to do was just simply describe in just a few
23 words what that rule is calling for. And it was
24 calling for a comparison of the plan of the Lifeline
25 Link Up.

1 Q. And does the rule also have additional
2 reference beyond rates? Things to consider?

3 A. Um --

4 Q. For example, the last few lines.

5 A. It's only asking that compare the plan
6 itself, the offerings that are involved in the plan.

7 Q. Would you agree that that would be the
8 same thing as the terms and conditions?

9 A. Yes, sir. I would.

10 Q. And that the rules references terms and
11 conditions?

12 A. Yes. I would agree with that.

13 Q. In formulating your testimony, did you
14 take into account the public interest standards, the
15 FCC that has directed to consider?

16 A. Yes, we did.

17 Q. So in the discussion that you had with
18 counsel and the Commissioner regarding the relationship
19 of VCI relative to AT&T, did you take into account the
20 directions of the FCC to consider the benefits of
21 customer choice?

22 A. Yes, we did. Our analysis there was to
23 simply to enhance choice as well as to insure that the
24 benefits of the program can reach as many people as
25 possible. And while we were doing that, we also look

1 at what the impact on the fund would be. And we
2 wanted to try to do the best we could to insure that
3 the advantages of telecommunications were provided to
4 all the residents in the State.

5 Q. And the last: I think you said that you
6 had reviewed the commitments that were made by
7 Mr. Johnson's rebuttal testimony. Would it be accurate
8 to say that it was actually his surrebuttal testimony?

9 A. It would.

10 MR. MEYER: Thank you. That's all I
11 have.

12 JUDGE STEARLEY: Thank you, Mr. Meyer.
13 Commissioner Murray, do you have anything else for
14 Mr. Cecil?

15 You may step down at this time. Thank
16 you for your testimony. You will not be finally
17 excused, just in case the Commissioners should have any
18 additional questions for you.

19 Mr. Gryzmala, you may call your witness.

20 MR. GRYZMALA: Thank you, your Honor.
21 We will call James Stidham.

22 JUDGE STEARLEY: Mr. Stidham, if you
23 will please raise your right hand, I will swear you in.

24 (Witness sworn.)

25 JUDGE STEARLEY: Thank you.

1 Mr. Gryzmala, you may proceed.

2 MR. GRYZMALA: Thank you, your Honor.

3 JAMES STIDHAM testified as follows:

4 DIRECT EXAMINATION BY MR. GRYZMALA:

5 Q. Mr. Stidham, have you caused to be
6 prepared rebuttal testimony in this matter?

7 A. Yes, I have.

8 Q. And have you likewise caused to be
9 prepared surrebuttal testimony in this matter?

10 A. Yes, I have.

11 Q. Thank you.

12 (EXHIBITS NOS. 4 AND 5 WERE MARKED FOR
13 IDENTIFICATION.)

14 MR. GRYZMALA: May I approach the
15 witness, Your Honor?

16 JUDGE STEARLEY: Yes, you may.

17 BY MR. GRYZMALA:

18 Q. Mr. Stidham, I have handed you what we
19 had marked as Exhibit 4, which would be your rebuttal
20 testimony, is that the testimony you caused to be
21 prepared?

22 A. Yes, it is.

23 Q. Would you have any changes or
24 corrections to that testimony?

25 A. Yes, I would. On Page 13, Line 22, I

1 state that the information provided is most recent from
2 the FCC. That is no longer true. On Line 23, where it
3 says 94.2 percent, the current number is 96.5 percent.
4 And where the number 93.1 percent, it is currently 94.6
5 percent. Additionally, the footnote needs to change to
6 represent the datasource. It is Telephone Subscription
7 in United States Lifeline competition Bureau, FCC data
8 through July 26th, Table 2, Telephone Penetration by
9 state.

10 Q. With those corrections, would your
11 rebuttal testimony represent the best of your knowledge
12 information and belief as of today?

13 A. Yes. I also have one other change.

14 Q. I am sorry. I gave you my only copy, so
15 please forgive me. Go forward.

16 A. All right. On Page 14, on Line 7, in my
17 testimony it says that the surcharge rate in Missouri
18 .18 percent. Commission rules have now changed that it
19 is now 2.9 percent. That change would be effective on
20 both Line 7 and Line 8. Excuse me, Line 7. Line 8
21 would read instead of 1.8 percent would not be 2.9
22 percent. And on Line 9 instead of 3.6 percent, it
23 would be 5.8 percent.

24 Q. Let me make sure I heard correctly.

25 With regard to Line 7. The accurate percentage would

1 be what?

2 A. .29 percent.

3 Q. Thank you. Do those round out the
4 corrections you would have to your rebuttal testimony?

5 A. Yes, they do.

6 Q. And let me now refer you to what has
7 been pre-marked as Exhibit 5. Would that represent the
8 surrebuttal testimony that caused to be prepared?

9 A. Yes, it does.

10 Q. And do you have any corrections or
11 changes to that testimony?

12 A. No. I do not.

13 Q. And the answers remain true to the best
14 of your knowledge and information and belief?

15 A. Yes, they do.

16 MR. GRYZMALA: Okay. Your Honor, I
17 would offer into evidence Exhibits 4 and 5,
18 respectively. And tender Mr. Stidham for
19 cross-examination.

20 JUDGE STEARLEY: Any objections to the
21 admission of Exhibits 4 and 5?

22 Hearing none, they shall be admitted and
23 received into evidence.

24 (EXHIBITS NOS. 4 AND 5 WERE RECEIVED
25 INTO EVIDENCE.)

1 MR. GRYZMALA: Your Honor, I neglected
2 one item, if I may. Mr. Steiner and I discussed this
3 briefly, we would offer into evidence the report that
4 Mr. Stidham reflected in the changed footnotes, which
5 is Telephone Subscribership in the United States a
6 report issued in January this year by the FCC as
7 Mr. Stidham identified. I have multiple copies. We
8 would seek to offer that into evidence as
9 Exhibit No. 6.

10 MR. STEINER: I thought our agreement
11 was we would take official notice of it.

12 MR. GRYZMALA: We could do either.

13 MR. STEINER: And I wanted to take
14 official notice of the Universal Service monitoring
15 portion that was reference in Mr. Johnson's testimony.
16 So --

17 JUDGE STEARLEY: The Commission can take
18 official notice of those documents. If you have copies
19 available, it would certainly, the Bench would
20 certainly appreciate that.

21 MR. STEINER: I can provide those at a
22 later date. I do not have those with me.

23 MR. GRYZMALA: We will withdraw our
24 request to admit that document, the document into
25 evidence that was -- that I just identified. We have

1 not objection and would encourage official notice of
2 the documents as you made reference, your Honor. And I
3 will just leave some copies here.

4 JUDGE STEARLEY: Very good. The
5 Commission will take official notice of the documents
6 noted by counsel.

7 MR. STEINER: Just to be clear, it was a
8 Universal Service Monitoring Report, CC Docket
9 No. 98-202. It was referenced in Mr. Johnson's
10 testimony.

11 JUDGE STEARLEY: All right. Thank you,
12 Mr. Steiner. With that we will go to cross-examination
13 beginning with Mr. Dandino.

14 MR. DANDINO: I don't -- excuse me.
15 Thank you, your Honor, but I have no questions. Thank
16 you.

17 JUDGE STEARLEY: Mr. Meyer?

18 MR. MEYER: Very briefly.

19 CROSS-EXAMINATION BY MR. MEYER:

20 Q. Do you have a sense of -- good
21 afternoon.

22 A. Good afternoon.

23 Q. Do you have a sense of how much of the
24 low-income portion of Universal Service Fund is in
25 dollars round figures perhaps?

1 A. I would have to estimate. It -- it --
2 it is in the high hundred millions, I believe. But I
3 would have to go back and look specifically at the
4 various pieces to make sure. Because it does have
5 Lifeline, Link Up and toll restriction support.

6 Q. But with, you know, 110, one hundred
7 thousands that kind of thing.

8 A. It's in -- it's in the hundred millions.

9 Q. Okay. Have you done any kind of
10 estimate of the impact if the Commission were to grant
11 VCI's application on the dollar sense?

12 A. Well, the problem with that is, you have
13 to know what kind of subscription level they would have
14 and whether those were all currently unsubscribed
15 customer or not. So it is very difficult to know. I
16 did change, as I noted in here in my testimony, the
17 correction that if the surcharge -- the surcharge would
18 increase significantly in Missouri if all of the
19 customers that potentially could be Lifeline customers
20 according to Mr. Johnson, he had indicated that there
21 was a limited number of customers that were currently
22 Lifeline in the state. So if you took those customers
23 and expanded that out to a 100 percent take rate, it
24 could be significant.

25 Q. But you would agree with me at this

1 point, VCI has indicated that it does not intend
2 request subsidies from the Missouri fund; is that
3 correct?

4 A. That's my understanding as of today.

5 Q. Okay. In your opinion, will AT&T lose
6 any of the dollars that it is currently getting were
7 VCI to be designated, getting out of the USF, were VCI
8 to be designated as a ETC incumbent?

9 A. It would totally depend on who their
10 customer base was and whether they were previously
11 served by us or not.

12 MR. MEYER: Thank you. That's all I
13 have.

14 JUDGE STEARLEY: Thank you, Mr. Meyer.
15 Cross-examination, Mr. Steiner, VCI Company?

16 MR. STEINER: Thank you.

17 CROSS-EXAMINATION BY MR. STEINER:

18 Q. Mr. Stidham, please turn to Page 14 of
19 your rebuttal.

20 A. Okay.

21 Q. And on Line 7, you see where it is
22 increased in the size of the MO USF. Do you see that?

23 A. Yes.

24 Q. What was the size of the MO USF used in
25 your calculations?

1 A. What I used was -- I looked at the
2 current surcharge, looked at Mr. Johnson's statement of
3 the level of subscription in the state and extrapolated
4 from there what increase would occur in the State fund.

5 Q. Do you what the size of the State fund
6 is?

7 A. I am not currently aware. It is
8 recently -- originally I did. I am not sure what it is
9 today.

10 Q. What's the original?

11 A. There were -- make sure I don't get the
12 states mixed up. Actually I would have to check. I am
13 sorry.

14 Q. Where would you find that out at?

15 A. There are several ways to find it out.
16 One would be to look at the USAC, USAC report and
17 determine how many Lifeline customers were currently
18 served in the State of Missouri and look at the \$3.50
19 additional. There also, I understand, reports out of
20 the Commission as to the level of the size of the fund.

21 Q. When do those reports come out?

22 A. I am not certain.

23 Q. Okay. Mr. Stidham, does AT&T advertise
24 via television regarding it's Lifeline program in
25 Missouri?

1 A. I don't believe that we have Lifeline
2 commercial now.

3 Q. Does it use radio?

4 A. Yes. They have been using radio.

5 MR. STEINER: That's all I have. Thank
6 you.

7 JUDGE STEARLEY: Redirect,
8 Mr. Gryzmala?

9 MR. GRYZMALA: I have no questions, your
10 Honor.

11 JUDGE STEARLEY: Very well.
12 Mr. Stidham, your testimony was short, but it was very
13 much appreciated.

14 THE WITNESS: Thank you.

15 JUDGE STEARLEY: You may step down at
16 this time. I am not going to finally excuse you as
17 witness, just in case Commissioner Appling, when he
18 returns, would have any additional questions for you.
19 My understanding is he's going to be back at
20 approximately 1:00 to 1:15. So we will go ahead and
21 break. Let's say we reconvene about 10 after 1:00 and
22 hopefully, we can conclude rather quickly.

23 MR. STEINER: Your Honor, would this be
24 a good time to talk about briefs. What is the
25 Commission ---

1 JUDGE STEARLEY: If you would like to go
2 ahead and do our housekeeping at this time we can.

3 MR. STEINER: We don't have to. Is it
4 the practice now to have simultaneous briefs instead of
5 applied briefs?

6 JUDGE STEARLEY: Yes.

7 MR. STEINER: Okay. That's fine.

8 JUDGE STEARLEY: Unless the party wants
9 to specifically insist upon replied briefs. Again, we
10 have been doing one round of briefing.

11 MR. STEINER: I have no problem with
12 that.

13 JUDGE STEARLEY: Okay. Let's go ahead
14 and take an intermission and we will reconvene in about
15 30 minutes.

16 (A RECESS WAS TAKEN.)

17 JUDGE STEARLEY: All right. We are back
18 on the record. And the Commission would like to recall
19 Mr. Johnson to the stand. And, Mr. Johnson, I will
20 remind you that you are still under oath.

21 MR. JOHNSON: Yes, sir.

22 COMMISSIONER APPLING: How are you
23 doing, Mr. Johnson?

24 THE WITNESS: Good. How you doing
25 Commissioner?

1 COMMISSIONER APPLING: I am doing fine.
2 I was really prep and prepared for you and then I went
3 out to the Country Club and had dinner, lunch, and now
4 I done forgot everything I was going to say to you.

5 THE WITNESS: That's a good thing.

6 COMMISSIONER APPLING: That's a good
7 thing. Now really, she's pointing that I need to turn
8 on my mic, so that she can get this on a recording.

9 QUESTIONS BY COMMISSIONER APPLING:

10 Q. AT&T this morning said that VCI didn't
11 have what it take to be in this competitive business.
12 So would you talk to me a little bit -- I am a new
13 person that has just showing up here, Mr. Johnson and I
14 saw your advertisement on TV and all that stuff. And I
15 just play acting at this time. Tell me, step back and
16 give me your -- you got three minutes to tell me about
17 this company and to convince me that we should let you
18 in the State of Missouri.

19 So I am giving you that opportunity here
20 this afternoon to tell me what I need to know about
21 your company that would persuade me to say yes or no to
22 you for your program. I know that is kind of heavy.

23 A. Okay.

24 Q. But you need to be ready to talk to this
25 kind of thing if you are going to be the CEO of this

1 organization. Correct?

2 A. Agreed.

3 Q. Talk to me, sir.

4 A. I will start with a little history. My
5 business partner Stan Eferney (ph) and I, spun two
6 years working in Europe at IBM. Got a MBA from Eastern
7 Michigan University. Went to work at Barrett
8 Diagnostics. A collegemate of ours spent the first
9 five years out of college working for the ILECs; QWest,
10 Verizon, SBC, AT&T. And what he discovered when he was
11 there hundred of thousands of customers were getting
12 disconnected off the network's original service.

13 So five years ago my business partner
14 and I started a company and we kind of focused on
15 providing service to those who could no longer get
16 service because they were disconnected from the
17 network. Or had a lot of barriers to getting services
18 again; deposits, paid past due bill. So VCI started
19 doing business, I think our first customer we got was
20 in February of '03.

21 Over the last four years, we served
22 hundred of thousands of customers you know, throughout
23 12 to 13 different states. We believe that we have the
24 best alternative package to the ILEC. No one can
25 provide service as cheap as the ILEC can. It is their

1 network. It's their system. We actually buy from them
2 in order to provide service to this high maintenance
3 customer.

4 Our billing cycle; everything about the
5 company is geared to help the low-income consumer, even
6 giving advice about what to choose, whether it is an
7 answering machine over voicemail. Calling card over
8 having an open long distance when you have a lot of
9 children and your friends over, a managed plan. We are
10 just trying to grow and offer a very good product.

11 We believe at the end of the day a lot
12 of us have a commodity, you know, the phone line
13 itself, is all pretty much the same. But it's the
14 service and what we stand for as a company, we think
15 that is fit for the low-income consumer.

16 Q. All right. One of my major concerns,
17 Mr. Johnson, is low-income. And that is what you are
18 carving out to serve here. That is kind of your
19 primary business. Right?

20 A. Yeah. Kind of how we see low-income.
21 We think we are an alternative --

22 Q. Let me finish this. Since they are
23 low-income -- and I was thinking that when I came in
24 this morning, I think it has been pretty well cleared
25 up by Staff to me and to my satisfaction, maybe or

1 maybe not, but I wanted to hear what you had to say
2 about it. Low-income, what about the rest of the
3 people out there that would like to take advantage of
4 this program. It doesn't seem to me -- how do you just
5 carve out the low-income people and not take on the
6 whole shebang?

7 A. We would provide service to anyone who
8 would like to receive service from VCI.

9 Q. Uh-huh.

10 A. But we do believe the ILEC offers more
11 for your money. We think they are a little bit better
12 for the everyday customer. We are an alternative
13 provider and we think our customer base with the whole
14 prepaid industry was designed behind people who
15 couldn't get the best offer on the table. So we want
16 to service everybody, but the masses of that
17 alternative market is low-income people.

18 Q. How do you react when people say that
19 you are piggy-backing on AT&T, for lack of a better
20 word? Piggy-backing on them, you are riding on them
21 across the country. You don't have a -- you don't have
22 to be worrying about whether they -- you know, when
23 anything goes down the line, goes down or anything.
24 You just jump on the train and ride as far as you can.
25 It is not quite the way I am explaining it, but I am

1 just trying to make it lighthearted here. What -- and
2 then your charges are a little bit more --

3 A. Sure.

4 Q. -- to the low-income and those are the
5 people that really deserve a break. They can't afford
6 it. How do you react to that when that question is
7 facing you and you say, well, OPC this morning said you
8 was a little bitty shark out there in the -- how do you
9 react to those kind of comments about your company?
10 And how much -- is there any truth in this?

11 A. I don't think there is any truth at all.
12 In my opinion, we are absolutely the best friend of the
13 ILEC. Let me tell you why. They can charge me more
14 for the service than they could a low-income subscriber
15 and they don't have to manage the highly needed
16 customer base. So here a line that they could sell for
17 15 cents, I will be buying for \$1.75, serving the same
18 customer, but now the customer calls me. I have the
19 responsibility of maintaining the customer.

20 So they've got a company that's more
21 creditworthy and also they can charge a higher price to
22 me than they can selling directly to them. So I think
23 we're the ILEC's best friend in my mind.

24 Q. You have -- you -- you are saying you
25 are out here helping low-income people.

1 A. Sure.

2 Q. Is that a fact?

3 A. Absolutely. Most of the time we run a
4 commercial -- we have a point-of-sale product.
5 Commercial run, phones ringing. People call excited
6 that they can have phone service in their home again.
7 It is not about the ancillary services. They can't
8 have this. They actually have dial tones in their
9 homes to have for their kids without paying -- without
10 being a prisoner of the past, is what we call it.
11 Made mistakes, SBC or AT&T and don't have \$400 to come
12 back. But here you have a chance not to go out and
13 need \$100 up front to get phone service.

14 Q. We hear a lot about low-income people
15 not being able to pay. What is your experience or what
16 is your company experience in cutting people off and
17 paying their bills because of many different reasons.
18 What is your company's experience in that? Are you
19 having a lot of people that you are having to cut off?
20 Are you -- just talk to me in general --

21 A. Sure.

22 Q. -- about that experience you are having
23 with them.

24 A. Sure. In the prepaid industry or -- and
25 I use prepaid because that is who we compare ourselves

1 to, the model. If you have less than a 20 percent
2 disconnect rate, if you disconnect less than 20 percent
3 of your companies, you are considered to be doing a
4 good job. You know, VCI is doing a pretty good job by
5 those standards.

6 What we have seen is that once we --
7 once a consumer gets their bill at the same time they
8 get their money from the State of Federal or wherever
9 they get their money the first of the month, and the
10 bill is predictable, it is the same amount every single
11 month, we've seen that rate increase, customers stay on
12 our platform longer than most prepaid carriers.

13 They are not worried about if the kid
14 talks long distance or dials 411. All these other
15 charges that appear on there, I think it is almost a
16 guessing game in the market. So giving the consumer
17 more consistency what their bill will be, we have seen
18 that that's been good for our company. Most people who
19 leave us, we see again in six or seven months, whether
20 a disconnect for non-payment or take a win back program
21 from SBC or the rates are better. We've seen roughly
22 80 percent, 90 percent of our customers come back
23 again. We think it is the overall philosophy of the
24 company, we think.

25 Q. Now AT&T was really bearing down this

1 morning on comparables.

2 A. Yes.

3 Q. Remember the word?

4 A. Yes, I do.

5 Q. I did have a question and I kind of lost
6 it about comparables, but define for me again what you
7 think comparables are.

8 A. If hypothetically, I was in your chair
9 and I was making decisions, I think -- and most
10 Commissions -- there is an ILEC tariff cost study and
11 then there is a CLEC, Competitive Local Exchange
12 Carrier, where the market kind of sets your price
13 structure based on -- there is market-based pricing.
14 I believe comparing SCB/AT&T and VCI is an orange and a
15 tangerine. I think they are out of the same family,
16 but they are not the same thing. That's how I -- I
17 don't think it is apples and oranges both of -- but I
18 think it's oranges and a tangerine.

19 We ultimately buy service from them.
20 So I think our cost base -- I think it is a tough
21 comparison if you are looking at per line cost. But
22 the plan itself, we offer exactly the same plan they
23 do.

24 COMMISSIONER APPLING: I think I am
25 going to say thank you for your comments. I think that

1 is all the questions I have. But I did want to ask
2 Walt just one other decision, if I could. You do not
3 need to come all the way up to the stand. You have
4 been sworn in this morning, haven't you?

5 MR. CECIL: Yes.

6 COMMISSIONER APPLING: Okay.

7 JUDGE STEARLEY: Mr. Appling, before you
8 do, I need to ask the parties if they would have any
9 recross-examination ---

10 COMMISSIONER APPLING: I am sorry, I am
11 taking your job, Judge. I shouldn't have --

12 JUDGE STEARLEY: That's all right.
13 Based upon the questions you just asked Mr. Johnson,
14 any re-cross of any of the parties?

15 Any redirect, Mr. Steiner?

16 MR. STEINER: Yes, briefly.

17 FURTHER REDIRECT-EXAMINATION BY MR. STEINER:

18 Q. You were speaking with Commissioner
19 Appling about comparables. Are AT&T's and VCI's rates
20 comparable?

21 A. Correct.

22 COMMISSIONER APPLING: That was a
23 compound question I was going to zero in on. And I
24 think that I have the answer, it is just that I am
25 still a little fuzzy on it.

1 THE WITNESS: Do you want me to respond?

2 JUDGE STEARLEY: Yes, go ahead.

3 THE WITNESS: I am sorry. I didn't
4 realize that. I do think the rates are comparable. I
5 just think the companies are different. That is
6 ultimately what I think. The numbers themselves are
7 not the same. Agreed they are lower, a lot lower than
8 we are. Agreed. But I don't -- I do think, if you
9 looked at our cost structure and their cost structure,
10 I do think it is a comparable from that stand point.
11 That is what I think.

12 COMMISSIONER APPLING: That's all I
13 have, Judge.

14 JUDGE STEARLEY: All right. And that
15 was the end of your redirect, Mr. Steiner?

16 MR. STEINER: That's correct.

17 JUDGE STEARLEY: All right. You may
18 step down, Mr. Johnson, and you will be finally excused
19 as a witness. Thank you very much for your testimony.

20 MR. JOHNSON: Thank you, Commissioner.

21 JUDGE STEARLEY: Mr. Cecil, I will
22 remind you that you are still under oath as well.

23 COMMISSIONER APPLING: Just a quick
24 question. Cecil, you can answer it from there.

25 THE WITNESS: I need --

1 COMMISSIONER APPLING: You need to sit
2 down for a second?

3 THE WITNESS: I need a microphone here.

4 QUESTIONS BY COMMISSIONER APPLING:

5 Q. Good enough. Talk to me again about the
6 Staff recommendation to VCI. Are you still
7 recommending that we award them this?

8 A. Yes. We do support their application.
9 The reason that we do is that we find that they are
10 going to approach a market niche of people who are
11 eligible for the low-income support. And for whatever
12 reason, these people are likely going to be customers
13 of VCI's and choose not to go to AT&T and it is our
14 feeling that they should be able to receive this
15 support.

16 Q. So you haven't heard anything this
17 morning to changes your mind your -- about Staff's
18 approval of --

19 A. No. I have not.

20 Q. -- of VCI.

21 COMMISSIONER APPLING: Okay. Judge,
22 thank you. And thank you, Mr. Cecil. I am sorry to
23 hold you around for that. But I just want to get that
24 on the record. Okay.

25 JUDGE STEARLEY: Is there any

1 recross-examination for Mr. Cecil?

2 Okay. Any redirect, Mr. Meyer?

3 MR. MEYER: No.

4 JUDGE STEARLEY: You may step down,

5 Mr. Cecil, you are finally excused.

6 And, Mr. Stidham, we had to final
7 questions for you. And I remind you also that you are
8 still under oath.

9 MR. STIDHAM: I acknowledge that.

10 Thank you.

11 JUDGE STEARLEY: Okay. These questions

12 were directed from Commissioner Murray.

13 QUESTIONS BY JUDGE STEARLEY:

14 Q. And she wanted to ask if you had ever
15 participated in similar applications in other states.

16 A. Yes, I have.

17 Q. And which states would this be?

18 A. I guess the question, I am not sure.

19 Similar, I mean. I have participated with wireless and
20 other here. We filed -- I have been the author of
21 comments filed in other states and I was a witness in
22 Indiana in a Budget Phone application that was denied
23 by the Commission there.

24 Q. Okay. And when you say Budget Phone
25 application, was that also for the ETC --

1 A. Yes, it was.

2 Q. -- application?

3 And then as a follow up, were you
4 involved as -- was AT&T involved as a party in those
5 actions?

6 A. Yes, we were.

7 Q. Okay. So would you characterize that as
8 you prevailed in those actions?

9 A. I would say that the Commission denied
10 the application so ---

11 Q. Okay. And that was exclusively, then,
12 in Indiana --

13 A. Yes.

14 Q. -- for that one case?

15 All right. That is all the questions
16 that Commissioner Murray had. Is there any
17 recross-examination based upon those questions?

18 MR. STEINER: Very briefly just to
19 clarify.

20 FURTHER RE-CROSS-EXAMINATION BY MR. STEINER:

21 Q. Did you participate along the way in any
22 cases involving VCI's applications?

23 A. We filed -- as I said, we filed
24 comments in the Michigan Commission's application for
25 VCI, I believe it was. We filed to intervene in

1 Kansas. And the Commission there acted before without
2 hearing.

3 Q. Did you personally or are you saying,
4 when you say "we," you mean AT&T in general?

5 A. I am involved in all of the ETC cases.

6 Q. Okay. And were any of those, I guess
7 aside from the VCI ones, Lifeline and Link Up
8 applications?

9 A. Well, that's specifically what's
10 being -- one of the key issues in the request for
11 rehearing in Kansas was the fact they granted a
12 Lifeline only, and it is our contention and I believe
13 it is my contention also that --

14 Q. I think I actually said aside from the
15 VCI application.

16 A. I am sorry.

17 Q. I probably talk too quickly. Sorry.

18 A. I have been involved in ETC applications
19 in this state with wireless. I am trying to think of
20 all of the --

21 Q. Again, maybe I started -- Lifeline
22 only --

23 A. Budget-com.

24 Q. -- non-VCI.

25 A. Okay. Budget Phone Indiana.

1 MR. STEINER: Thank you.

2 JUDGE STEARLEY: Any additional
3 cross-examination?

4 Re-direct, Mr. Gryzmala?

5 MR. GRYZMALA: Quickly. May I approach,
6 your Honor?

7 JUDGE STEARLEY: Certainly.

8 MR. STEINER: What are you looking at
9 here?

10 FURTHER REDIRECT EXAMINATION BY MR. GRYZMALA:

11 Q. Before you look at the exhibit, are you
12 aware -- with respect to the Commissioner's question
13 regarding participation in other states -- are you
14 aware of an application in Ohio that was ruled on with
15 respect to a low-income-only ETC applicant?

16 A. I don't recall. But you have handed me
17 a document from Ohio.

18 Q. Let me ask you again. I take your
19 answer --

20 MR. STEINER: Your Honor, wasn't this
21 question whether he participated, not whether he is
22 aware of other proceedings?

23 JUDGE STEARLEY: The question was if he
24 had participated.

25 MR. STEINER: I think he said he hadn't.

1 I am not sure this is not relevant to the question that
2 was asked.

3 MR. GRYZMALA: May I rephrase my
4 question?

5 JUDGE STEARLEY: Yes, you may.

6 BY MR. GRYZMALA:

7 Q. Mr. Stidham, have you participated in an
8 Ohio proceeding where the question was presented as to
9 whether the low-income ETC application should be
10 allowed ETC status?

11 A. We had filed to intervene and filed
12 comments in Ohio with NEXUS Communications. I was
13 involved with the drafting of the comments and to the
14 extent that that constitutes participation, yes. There
15 were no hearings that I attended.

16 Q. Okay. That's what I wanted to ask.
17 And would you kindly convey, if you recall, the
18 outcome?

19 A. NEXUS was denied because the rates were
20 not comparable.

21 MR. GRYZMALA: Your Honor, I am sorry I
22 did not anticipate the question. So I only have one
23 copy. So what I would like to do is identify the
24 document that I would like to have Mr. Stidham discuss
25 very briefly and then provide late-filed copies, if I

1 may?

2 JUDGE STEARLEY: Yes, you may.

3 BY MR. GRYZMALA:

4 Q. Would you please identify the document
5 that I put before you, Mr. Stidham?

6 A. The Public Utility Commission of Ohio,
7 Case No. 97-632-T as in Tom, P as in Paul, -C as in
8 Charlie, O as in Oscar, I as in Indian.

9 Q. And what is the caption in that?

10 A. Finding an order.

11 Q. Okay. What is the title of the case, as
12 it were?

13 A. Oh, I am sorry. In the Matter of the
14 Commission Investigation of the Intrastate Universal
15 Service Discounts.

16 Q. And that is the order that had to do
17 with application of NEXUS Communications?

18 A. That is correct.

19 MR. GRYZMALA: Okay. May I approach
20 just briefly, Your Honor, just briefly.

21 JUDGE STEARLEY: You may.

22 BY MR. GRYZMALA:

23 Q. What was the principle finding in that
24 order?

25 A. The Commission finds that it is not in

1 the public interest to utilize public funds for the
2 purpose of subsidizing competition simply for the sake
3 of being able to represent that there is another
4 competitor in a particular exchange. This is
5 specifically the case in this situation in which NEXUS,
6 NEXUS' connection fee and purposed residential service
7 in subsidized Lifeline rates will be significantly
8 higher than the ILEC's corresponding rate.

9 In support of this decision, the
10 Commission recognizes that growing concern regarding
11 the state of the Federal Universal Service Fund due to
12 the rapid growth in Federal support distributions to
13 competitive ETCs.

14 Q. What is the date of that order,
15 Mr. Stidham?

16 A. The date of this order is August 25,
17 2006.

18 Q. To your knowledge, is that a final
19 non-appealable order?

20 A. Yes, it is.

21 MR. GRYZMALA: That is all I have, your
22 Honor.

23 JUDGE STEARLEY: All right. We will
24 have that marked as Exhibit 7. And I will anticipate
25 your late filing no later than Friday, the 27th of

1 April.

2 MR. GRYZMALA: We formally move to
3 admit.

4 JUDGE STEARLEY: Right. At that point
5 it will be subject to any reasonable objections from
6 the parties.

7 MR. STEINER: Your Honor, what was 6? I
8 don't -- was there an Exhibit 6?

9 JUDGE STEARLEY: Oh, I apologize. That
10 should have been Exhibit 6. We had started to mark a
11 prior document and I crossed that out. So you are
12 correct. It will be Exhibit 6.

13 (EXHIBIT NO. 6 WILL BE MARKED FOR
14 IDENTIFICATION UP RECEIPT OF LATE FILING.)

15 JUDGE STEARLEY: All right.
16 Mr. Stidham, I would like to thank you for your
17 testimony. You may step down and you are finally
18 excused as a witness today. At this time, I understand
19 we need to take up a evidentiary matter in-camera. So
20 at this point we will go in-camera.

21 JUDGE STEARLEY: And, Mr. Meyer, I was
22 going to ask, do we need to clear the room of anyone?

23 MR. MEYER: Yes.

24 MR. GRYZMALA: Did I do something wrong,
25 David?

1 MR. MEYER: No.

2 MR. GRYZMALA: Okay.

3 (AN OFF-THE-RECORD DISCUSSION WAS HELD.)

4 (REPORTER'S NOTE: At this time an
5 in-camera session was held, which is contained in
6 Volume 3, pages 198 through 199.)

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1 JUDGE STEARLEY: All right. We are back
2 from our in-camera session. And at this point, all of
3 our witnesses' testimony has been concluded and we just
4 have a few housekeeping items. Transcripts are
5 generally available in 10 business days, after which we
6 shall have one round of post-hearing briefs to follow
7 20 days after the filing of the official transcripts.
8 We can kind of project out here.

9 MR. DANDINO: Commissioner, will you
10 issue an order --

11 JUDGE STEARLEY: Yes. When transcripts
12 are filed, I will send out another order specifically
13 stating the date when post-hearing briefs will be due.
14 We do have all the exhibits in at this time, except for
15 the late-filed exhibit; is that correct?

16 MR. GRYZMALA: Yes, Your Honor.

17 JUDGE STEARLEY: All right. Are there
18 any other matters that we need to take up at this time
19 before we adjourn?

20 MR. STEINER: I don't believe so.

21 JUDGE STEARLEY: All right. Very well
22 then. The evidentiary hearing in Case No. CO-2006-0464
23 is hereby adjourned. Thank you all very much.

24 (WHEREUPON; THE PROCEEDINGS WERE
25 CONCLUDED AT 1:36 p.m.)

1 CERTIFICATE OF REPORTER

2
3 I, LISA M. BANKS, a Certified Court Reporter, within
4 and for the State of Missouri, do hereby certify that the
5 witness whose testimony appears in the foregoing deposition
6 was duly sworn by me; that the testimony of said witness was
7 taken by me to the best of my ability and thereafter reduced
8 to typewriting under my direction; that I am neither counsel
9 for, related to, nor employed by any of the parties to the
10 action in which this deposition was taken, and further, that
11 I am not a relative or employee of any attorney or counsel
12 employed by the parties thereto, nor financially or
13 otherwise interested in the outcome of the action.

14
15 _____
16 Lisa M. Banks, CCR
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14	Public Utility Commission of Ohio,		
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