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BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

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TRANSCRIPT OF PROCEEDINGS

HEARING

March 9, 2007

Jefferson City, Missouri

Volume 4

In-Camera Proceedings

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In the Matter of the Review of the )  
Competitive Classification of the )Case No.  
Exchanges of Southwestern Bell )TO-2007-0053  
Telephone, L.P. d/b/a AT&T Missouri )

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NANCY M. DIPPELL, Presiding,  
DEPUTY CHIEF REGULATORY LAW JUDGE.  
CONNIE MURRAY,  
STEVE GAW  
LINWARD "LIN" APPLING,  
COMMISSIONERS.

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REPORTED BY:  
TRACY L. THORPE TAYLOR, CCR  
MIDWEST LITIGATION SERVICES

1 IN-CAMERA PROCEEDINGS

2 JOHN VAN ESCHEN testified as follows:

3 QUESTIONS BY COMMISSIONER GAW:

4 Q. Great. Mr. Van Eschen, would you tell me what  
5 Exhibit 15 is, please?

6 A. Exhibit 15 is a cost study that was performed  
7 by Southwestern Bell in Case No. TO-2001-438. It attempts to  
8 identify the costs associated with simple and complex  
9 unbundled network elements. I think for our purposes, looking  
10 at the costs associated with simple UNEs is the focus I think  
11 of your interest.

12 Q. At least it's helpful to me to have something  
13 here. And what is Exhibit 16?

14 A. Exhibit 16, I -- it's my understanding is  
15 the -- the same cost study, although the inputs that were  
16 inserted into it were inputs that were put together by what's  
17 referred to as Joint Sponsors or another way to put that is a  
18 coalition of CLECs. And they -- that Exhibit 16 is the  
19 results of their cost study.

20 Q. Okay.

21 A. And I believe they used the same model that  
22 Southwestern Bell used, but if you look at both cost studies,  
23 the format appears essentially identical.

24 Q. Okay. Well, there will be some differences in  
25 these numbers as a result, but what I'm really interested in,

1 why don't we stay on Exhibit 15 --

2 A. Okay.

3 Q. -- because it appears that they do track  
4 together, 15 and 16, so I can get some explanation.

5 First of all, the study purposes as designated  
6 there in -- gosh, these pages appear not to be numbered.  
7 Well, in tab 1 there is -- I guess it's all listed as -- there  
8 we go, there is a description of the study purpose. And is  
9 that your understanding that that --

10 A. Yes.

11 Q. -- that's accurate?

12 A. Uh-huh.

13 Q. Okay. And the service description that's in  
14 here is listed also on that page including Call Waiting, Call  
15 Forwarding, Variable Call Forwarding, Busy Line, Call  
16 Forwarding Don't Answer, Three-Way Calling, Speed Calling 8,  
17 Speed Calling 30. There are a number of things that are  
18 listed there. Correct?

19 A. That's correct.

20 Q. Are all of those things vertical services?

21 A. Yes.

22 Q. Okay. And in the pricing of those kinds of  
23 services under Missouri law, when they're subject to price  
24 cap, that would have been subject to what was an 8 percent per  
25 year cap and now is a 5 percent per year cap. Would that be

1 correct as far as the price cap statute is concerned?

2 A. Yeah. The retail rates for those services,  
3 yes.

4 Q. Yes.

5 A. 8 percent and 5 percent.

6 Q. Okay. All right. Now, if I look back to the  
7 point where there are certain assumptions made in the study  
8 that appear under the heading of Assumptions, including a  
9 study period between 2001 and 2003; is that correct?

10 A. Yes.

11 Q. 12.19 percent cost of money, levelized  
12 inflation of labor rates, Commission assessment included. And  
13 then there's some other assumptions in the study?

14 A. Yes.

15 Q. Okay. Now, what does that mean down below  
16 there, the TELRIC shared and common cost factor has not been  
17 applied to the cost results in this study, do you know?

18 A. I don't know for sure. I think typically  
19 there's a -- a certain percentage that's applied to help  
20 recover shared and common costs.

21 Q. Okay. So that's not in here. Correct?

22 A. Apparently not, no.

23 Q. Okay. Is that a factor that's significant or  
24 is that fairly --

25 A. I don't know offhand.

1 Q. -- normal?

2 Okay. Let's look at the next page after that  
3 and there's some -- there are some prices there. Do you see  
4 that page?

5 A. Yes.

6 Q. Seems to be tabbed 6 at the top.

7 A. Yes.

8 Q. All right. What does that mean, Simple  
9 features, average weighted cost per feature?

10 A. I think that's the cost that you're wanting to  
11 know. The simple features are the type of features that were  
12 described earlier, Call Waiting, Call Forwarding, Three-Way  
13 Calling, Speed Calling, Caller ID. They would all fall into  
14 the category of simple features --

15 Q. Okay.

16 A. -- and based on this particular portion of the  
17 cost study, it shows what the results are.

18 Q. Okay. And No. 2 down there, Weighted average  
19 cost, Hunting Arrangement, what does that refer to?

20 A. That's a special, I believe, service for --  
21 for hunting.

22 Q. What does that mean? Hunting to me has a very  
23 definite meaning.

24 A. Oh, I'd have to look at their tariff, but in  
25 general terms, I think, you know, if a line is busy, it kicks

1 over and hunts for the next available line. In general terms,  
2 that's what hunting does.

3 Q. Okay. What vertical services would that apply  
4 to, if you know?

5 A. I don't know the specific names of the  
6 services.

7 Q. Would it apply to the -- let's see. For  
8 instance, would it apply to Call Waiting?

9 A. No.

10 Q. Would it apply to Caller ID?

11 A. No.

12 Q. There is a category called Hunting  
13 Arrangements. Would that be the category that it does apply  
14 to?

15 A. In my opinion, yes.

16 Q. Do you know if it would apply to any of the  
17 other categories that are listed in the service description  
18 page?

19 A. Not that I'm aware of.

20 Q. Okay. And then there's a weighted average  
21 cost Personalized Ring category on No. 3.

22 A. Yes.

23 Q. Is that simply about Personalized Ring?

24 A. That's my understanding, yes.

25 Q. Okay. Then complex or CENTREX features under

1 No. 4, what is that?

2 A. Those are -- are features that are involved in  
3 a CENTREX type of an arrangement.

4 Q. Okay. And what is CENTREX, by the way?

5 A. I'm not sure what the best way to describe  
6 that is, but it's a service generally provided to business  
7 services. Each one of the stations typically has a physical  
8 line running to the stations, and I guess the alternative for  
9 that type of an arrangement typically is a private branch  
10 exchange system that CENTREX competes with.

11 Q. Okay. Now, the next page says, Tab 6.3,  
12 there's an order type, Number one, Simple order new, add to  
13 existing circuit. What does that represent?

14 A. To be honest, I'm not quite sure. I think  
15 it -- this page is attempting to provide a more detailed  
16 breakdown of how that cost on the prior page was arrived at.

17 Q. Okay. Isn't it on the -- on, for instance, on  
18 the previous page on the first line, Average weighted cost per  
19 feature, isn't it an attempt to separate it out so that you  
20 can see that one is for adding to an existing circuit and the  
21 other is to add to an initial circuit and showing the  
22 difference in prices between those two as --

23 A. Yeah.

24 Q. -- as to how they arrived at the weighted  
25 average?

1 A. Yeah. That's what it appears to be.

2 Q. Yeah. Okay. And the next page, that under  
3 line 1 -- lines 1 and 2, can you explain that, what that's  
4 representing?

5 A. Well, line 1 refers to add to an existing  
6 circuit, the initial circuit and line 2 refers to adding to --  
7 exist-- supplemental circuits.

8 Q. There's a percentage times requested category  
9 under C. Do you see that?

10 A. Yes, I do. Under column C.

11 Q. And the percent times requested then  
12 percentages under that, what does that mean to you?

13 A. I guess in -- in practical terms, when you set  
14 this -- assume -- if that would have been different costs in  
15 column A, I think they were trying to capture the -- the  
16 percent of times that this applies on the initial circuit  
17 versus adding to that circuit.

18 Q. And then, in essence, you're getting an  
19 average cost there on the -- on the existing circuit as a  
20 result of the --

21 A. Yeah. The --

22 Q. -- multiplication of the percentage?

23 A. -- end result, again, it sums up to that same  
24 total --

25 Q. Same amount.



1 A. -- nonrecurring cost.

2 Q. The next page has some information on  
3 assumptions used to develop forward-looking total nonrecurring  
4 hours. Can you explain what that means?

5 A. Not any further than how it's described on  
6 that page, no.

7 Q. Well, for instance, what does it mean, Subject  
8 matter expert estimate? What does that mean?

9 A. I'd have to guess and I -- I -- I hesitate to  
10 do that.

11 Q. All right. Well, we'll not have you guessing  
12 here. All right? Okay.

13 All right. Now, in the other exhibit, have  
14 you looked through it as well?

15 A. Yes.

16 Q. The numbers that are generated there are not  
17 the same as the numbers generated in the first exhibit, in 15.  
18 Correct?

19 A. That's correct.

20 Q. They appear to be -- they appear to be  
21 generally lower in result?

22 A. That's correct.

23 Q. But the categories are the same?

24 A. Yes.

25 Q. Have you noticed whether there are differences

1 in the assumptions that led to the differences in numbers?

2 A. There are.

3 Q. Okay. Can you just briefly tell me what those  
4 differences in assumptions are?

5 A. There was a difference in the assumption  
6 concerning the cost of money, for example.

7 Q. Okay.

8 A. In the May 2001 cost study, the cost of money  
9 was assumed to be 12.19 percent. In the October 2001 cost  
10 study, the cost of money assumption was 9.38 percent.

11 Q. Anything else that would -- that impacted the  
12 result?

13 A. I don't -- I don't think it -- it affected the  
14 end result, but there were some different weightings, I do  
15 believe.

16 Q. Different weightings in regard to average  
17 costs or something else?

18 A. Let me -- let me -- no, those appear to be --  
19 let's see. The -- the percent times requested on this as  
20 tabbed 6.4, that appears to be different.

21 Q. What does that mean, "percent times  
22 requested"?

23 A. I'm not exactly sure. You know, again, it  
24 appears to be breaking it out based on whether you're adding  
25 to the initial circuit or whether you're adding to a

1 supplemental circuit, but I'm -- I'm not clear on that  
2 breakdown.

3 Q. Okay. All right. Now, yesterday -- do the  
4 results in this study cause you to have any difference in  
5 opinion in regard to your characterization yesterday as to the  
6 cost of the provision of vertical services as being minimal?

7 A. Based on these cost studies, the costs are  
8 definitely minimal.

9 Q. All right. And the numbers are in here, so  
10 I'm not going to spend time going through that right now.  
11 There is -- these cost studies were developed for what  
12 purpose?

13 A. They were developed in Case No. TO-2001-438.  
14 And that was really a case that was spun out of the  
15 Southwestern Bell 271 case where the Commission wanted to look  
16 at the prices of various UNEs and that's what the purpose of  
17 this particular case was attempting to do.

18 Q. Okay. And what was the -- what was the  
19 objective of that case as far as -- as far as the costs were  
20 concerned? What was the relevance of the cost to the case?

21 A. Well, I think there was some -- some UNEs that  
22 the Commission simply hadn't really had an opportunity to look  
23 at before and they wanted to do that. There were some other  
24 cases where the Commission did look at UNE pricing and -- but  
25 then there were some UNEs that the Commission for one reason

1 or another didn't have that opportunity.

2 Q. Okay. And the reason the Commission needed  
3 these costs was for what purpose in that case?

4 A. I think whenever you want to check the  
5 reasonableness of rates, you want to know the underlying costs  
6 of providing those features or services, and I think that's  
7 the sole purpose of these cost studies.

8 Q. Okay. Because there was -- was the price that  
9 was going to be charged to another telecommunications entity,  
10 by at that time Southwestern Bell, for -- and the Commission  
11 was assigned the duty to come up with fair prices under --

12 A. Yes.

13 Q. -- under the federal law?

14 A. Yes.

15 Q. Okay. Now, the prices that are listed in  
16 these documents, are those one-time prices? Are those --

17 A. You mean the costs?

18 Q. Excuse me. The costs. Thank you for that  
19 correction.

20 A. Yeah, these are nonrecurring costs.

21 Q. All right.

22 A. There do not appear to be any monthly  
23 recurring costs.

24 Q. Okay. Do you know whether there would be  
25 some -- once these services are put in, once they're put in,

1 is there a recurring cost to them, to providing them?

2 A. These cost studies didn't show that.

3 Q. Yeah. Well, in your experience, is there  
4 something that has to be done to these systems once they're in  
5 place that causes there to be --

6 A. No. In my opinion, the -- the -- you know,  
7 once the -- you know, there's some work that needs to be done  
8 to initially provide the capability, but once it's up and  
9 running and available to the customer, I -- it's difficult for  
10 me to imagine recurring costs that might be incurred.

11 COMMISSIONER GAW: Okay. I think that that's  
12 all I have, Judge. Thank you.

13 JUDGE DIPPELL: I'm going to -- I think  
14 Commissioner Murray had a question for you. I'm going to let  
15 her know that we're to that point, but in the meantime, I'll  
16 see if there's any further cross-examination based on  
17 questions from the Bench specifically about the -- we'll start  
18 with the in-camera ones.

19 MR. DANDINO: No questions.

20 JUDGE DIPPELL: Hang on just a second. Let  
21 me -- okay. Were there any in-camera questions from AT&T?

22 MR. BUB: We do, your Honor.

23 JUDGE DIPPELL: Yes, go ahead, then.

24 RE-CROSS-EXAMINATION BY MR. BUB:

25 Q. For the non-- for the in-camera part I just

1 have I think one question as follow up to discussion you just  
2 had, Mr. Van Eschen, with Commissioner Gaw, about these two  
3 studies being nonrecurring studies. Isn't it correct that the  
4 CLECs get vertical features as part of buying the switching  
5 and the switchport unbundled network elements?

6 A. I'm going to have to answer that I'm not sure.

7 Q. Okay. All right. Mr. Van Eschen, assuming  
8 that that was correct, you wouldn't need a separate recurring  
9 cost study for these vertical features. Would that be a  
10 fair --

11 A. Where it's just part of the switching?

12 Q. Yes. If the cost of providing the vertical  
13 features was already captured --

14 A. Automatically --

15 Q. -- by the switching and port studies, you  
16 wouldn't need a separate vertical service feature study?

17 A. Well, I certainly wouldn't want to try and  
18 doubly capture the cost --

19 Q. Of course.

20 A. -- and to that extent that it might be covered  
21 under switchporting costs, if -- if that is indeed the case,  
22 then I would agree.

23 Q. Okay. And all we're looking at with these  
24 nonrecurring cost studies is the cost to install and activate  
25 a feature -- a vertical feature at a CLEC's request?

1 A. That's what these cost studies appear to be.

2 Q. And these two studies are presented by  
3 competing parties in that one case. Right?

4 A. Yes.

5 Q. And the Commission made a determination of  
6 what those costs should be, didn't it, in its order?

7 A. I believe they did. I haven't read the --  
8 re-read the order.

9 Q. Okay. And the results of what the Commission  
10 determined, they're now reflected in the UNE prices in the  
11 successor M2A interconnection agreement that the Commission's  
12 approved. Would that be your understanding?

13 A. That's my understanding, yes.

14 MR. BUB: Thank you. Judge, those are all the  
15 questions we had for the in-camera portion.

16 JUDGE DIPPELL: Thank you.

17 MR. BUB: We do have others.

18 JUDGE DIPPELL: Okay. Were there any  
19 in-camera recross-examination questions from Public Counsel?

20 MR. DANDINO: No, your Honor.

21 JUDGE DIPPELL: All right. Was there any  
22 redirect related to the in-camera?

23 MR. HAAS: No, your Honor.

24 JUDGE DIPPELL: All right then. I believe  
25 then we are finished with the in-camera portion. We can go

1 back in the public session.

2 WHEREUPON, the in-camera portion of John Van  
3 Eschen's testimony was concluded.

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