

**CASE  
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99-296

Filed 9-7-99

BEFORE THE  
KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 99-296

**FILED**

SEP 07 1999

PUBLIC SERVICE  
COMMISSION

RE: BELL ATLANTIC CORPORATION &  
GTE SOUTH, INCORPORATED  
TRANSFER OF UTILITY

Pursuant to notice duly given, the above-styled matter came to be heard August 24, 1999, at 9:00 a.m. in the Hearing Room of the Kentucky Public Service Commission, 730 Schenkel Lane, Frankfort, Kentucky 40601; The Honorable B. J. Helton presiding.

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BEFORE THE  
KENTUCKY PUBLIC SERVICE COMMISSION

CASE NO. 99-296

RE: BELL ATLANTIC CORPORATION &  
GTE SOUTH, INCORPORATED  
TRANSFER OF UTILITY

APPEARANCES:

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PUBLIC SERVICE COMMISSION

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Vice Chairman  
PUBLIC SERVICE COMMISSION

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1 CHAIRMAN HELTON:

2 We are here in the matter of the Joint Application  
3 of Bell Atlantic Corporation and GTE Corporation  
4 for an Order authorizing transfer of utility  
5 control. This is Case Number 98-519. Could I  
6 have appearances of the parties please?

7 MR. FOSTER:

8 Good morning Dr. Helton and Commissioners. My  
9 name is Joe W. Foster, an attorney with GTE, my  
10 business address is 1412--Post Office Box 1412,  
11 Durham, North Carolina 27704. Also appearing with  
12 me this morning are three individuals I'd like to  
13 introduce to you. First is Mr. Steven  
14 Zipperstein. Mr. Zipperstein is the Vice  
15 President and Deputy General Counsel for GTE, his  
16 address is One GTE Place, Thousand Oaks,  
17 California 91362. Mr. Zipperstein is a member of  
18 the California bar. Also appearing this morning  
19 with me is Mr. Jeff Carlisle of the Washington,  
20 D. C., lawfirm of O'Melveny and Myers, his address  
21 is 555 13th Street North West, Suite 500W,  
22 Washington, D. C. 20004. Mr. Carlisle is a member  
23 of the District of Columbia bar. And, also,  
24 appearing this morning is Mr. John Walker. Mr.



1 Walker is the General Counsel of Bell Atlantic,  
2 District of Columbia, his address is 1320 North  
3 Courthouse Road, Arlington, Virginia 22201. Mr.  
4 Walker is also a member of the District of  
5 Columbia bar and I would ask that these gentlemen  
6 be allowed to participate with me in the hearing  
7 this morning.

8 CHAIRMAN HELTON:

9 Mr. Atkinson:

10 MR. ATKINSON:

11 Good morning Madam Chairman and Commissioners,  
12 Bill Atkinson on behalf of Sprint Communications  
13 Company, LP, my business address is 3100  
14 Cumberland Circle, Atlanta, Georgia 30339. With  
15 me this morning is our outside counsel, Mr. Jack  
16 Hughes, 124 West Todd Street, Frankfort, Kentucky,  
17 and our witness Dr. David T. Rearden from 8140  
18 Ward Parkway, Kansas City, Missouri.

19 MS. CHEUVRONT:

20 Ann Louise Chevront with the Attorney General's  
21 Office, 1024 Capitol Center Drive, Frankfort,  
22 40601.

23 MR. WILSON:

24 William Willis and Dale Wright.

1 CHAIRMAN HELTON:

2 Vivian, I need to make a correction, I gave the  
3 case number as 98-519, that was the earlier case  
4 number, the case number is 99-296.

5 MR. ATKINSON:

6 Commissioner, before we get started, actually that  
7 correction leads into a clarification I wanted to  
8 ask for before we start the hearings. I'd like to  
9 clarify whether the Commission intended that the  
10 record of the previous proceeding, 98-519, be  
11 incorporated by reference into the record of this  
12 proceeding since the April Order in that docket,  
13 the 98-519 docket, spawned the six primary  
14 criteria for examining the Joint Application of  
15 this docket? It seems to me that the records of  
16 the two are inextricable linked and we would like  
17 to incorporate by reference the prior docket into  
18 these proceedings.

19 CHAIRMAN HELTON:

20 We intended to do so Mr. Atkinson.

21 MR. ATKINSON:

22 Thank you.

23 CHAIRMAN HELTON:

24 Is there any member of the public that would like

1 to give public comment? Have the parties agreed  
2 upon the order of the witnesses?

3 MR. FOSTER:

4 I believe we have, Dr. Helton. Would you like for  
5 us to call our witness?

6 CHAIRMAN HELTON:

7 Yes, and if you could give us the witness order  
8 before we begin it will help us.

9 MR. FOSTER:

10 Absolutely, I'd be delighted to. Our first  
11 witness will be Mr. Jeff Kissell, and he will also  
12 be adopting the testimony of Mr. Griswold. The  
13 next witness will be Mr. Michael Reed, followed by  
14 Mr. Dennis Bone, followed by Dr. William Taylor,  
15 then John Peterson, then Mr. Paul Shuell, Mr.  
16 Steven Shore and, finally, Mr. John Blanchard.

17 CHAIRMAN HELTON:

18 Call your first witness.

19 MR. FOSTER:

20 We will call Mr. Kissell and Mr. Carlisle will  
21 handle that presentation.

22 (WITNESS DULY SWORN)

23 The witness, JEFFREY C. KISSELL, having first been  
24 duly sworn, testified as follows:

DIRECT EXAMINATION

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BY MR. CARLISLE:

Q Please state your name and business address for the record?

A My name is Jeffrey C. Kissell, K-i-s-s-e-l-l, and my business address is 600 Hidden Ridge, Irvine, Texas.

Q Who is your employer and in what capacity are you employed Mr. Kissell?

A I'm the Vice President of Merger Integration with GTE Service Corporation.

Q Mr. Kissell, did you adopt the prefiled Direct Testimony in this proceeding of Mr. William Griswold consisting of 26 pages of testimony?

A Yes, I did, sir.

Q Do you have any changes, additions or corrections to this prefiled testimony?

A No, I do not.

Q Were I to ask you the questions contained in your prefiled testimony today, would your answers be the same?

A Yes, they would.

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MR. CARLISLE:

Madam Chair, I would ask that Mr. Griswold's direct testimony as adopted by Mr. Kissell be entered into the record as if orally stated from the stand.

CHAIRMAN HELTON:

So ordered.

Q Mr. Kissell, did you also prefile direct testimony in this proceeding consisting of 16 pages of your own Direct Testimony?

A Yes, I did.

Q Do you have any changes, additions or corrections to your--to that prefiled testimony?

A No, I do not.

Q Were I to ask you the same questions contained in that testimony today, would your answers be the same?

A Yes, they would.

MR. CARLISLE:

Madam Chair, I would ask that Mr. Kissell's direct testimony be entered into the record as if orally stated from the stand?

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CHAIRMAN HELTON:

So ordered.

Q And, Mr. Kissell, did you also prefiled  
Rebuttal Testimony consisting of 12 pages of  
Rebuttal Testimony?

A Yes, I did.

Q Do you have any changes, additions or  
corrections to that testimony?

A No, I do not.

Q If I were to ask you these same questions  
contained in that testimony today, would your  
answers be the same?

A Yes, they would.

MR. CARLISLE:

Madam Chair, I would finally ask that  
Mr. Kissell's Rebuttal Testimony be  
entered into the record as if orally  
stated from the stand.

CHAIRMAN HELTON:

So ordered.

MR. CARLISLE:

The witness is available for cross-  
examination.

1 CHAIRMAN HELTON:

2 Mr. Atkinson?

3 MR. ATKINSON:

4 Thank you Madam Chairman.

5

6

CROSS EXAMINATION

7 BY MR. ATKINSON:

8 Q Good morning, Mr. Kissell, Bill Atkinson on behalf  
9 of Sprint Communications Company, LP.

10 A Good morning, sir.

11 Q I'd like to start with a preliminary matter,  
12 if I could, and just ask you to cite on the  
13 record in what states besides Kentucky have  
14 you testified or filed testimony regarding  
15 the proposed merger?

16 A I've testified in California, I have prefiled  
17 testimony in the State of Indiana, and I  
18 believe that is all that has been filed.

19 Q Besides Kentucky?

20 A And Kentucky.

21 Q Okay, thank you. I'd like to direct you to  
22 page ten of your Direct Testimony where you  
23 acknowledge that the Commission's April 14  
24 Order in the prior merger docket requires GTE

1 and Bell Atlantic to identify the bundled or  
2 package services that will be available in  
3 Kentucky after the merger. But you state  
4 then, on the next page, page 13, actually I  
5 guess that is three pages, you state on page  
6 13 that, beginning on line 14, "It is  
7 impossible at this time to provide specific  
8 rates, terms and conditions of such service  
9 offerings." Is that correct?

10 A I'm sorry, you were jumping around.

11 Q You need a minute to find--

12 A I'm sorry, would you please give me the--

13 Q Sure. On page ten, towards the bottom of  
14 your direct testimony,--

15 A Uh-huh.

16 Q --you state I believe in a question starting  
17 on page 10, line 17, that the Commission's  
18 April 14 Order in the prior docket requires  
19 the joint applicants to identify the bundled  
20 or package services that will be available in  
21 Kentucky after the merger, post merger. But  
22 then you state on page 13 that it is  
23 impossible at this time to provide specific  
24 rates, terms and conditions of such service



1 offerings; is that correct?

2 A That is correct.

3 Q Okay. Staying on page 13 with me Mr.

4 Kissell, starting on page--on line 18, you  
5 state that it is unrealistic to expect GTE  
6 and Bell Atlantic to plot it to the last  
7 detail exact rates, terms and conditions of  
8 the service offerings it will provide after  
9 the merger; is that a correct reading?

10 A That is a correct reading.

11 Q You appear almost to be saying indirectly  
12 that the Commission's directive in its prior  
13 Order that GTE/Bell Atlantic will specify  
14 which services will be packaged is sort of an  
15 unrealistic requirement. Is that what you  
16 meant to say?

17 A Absolutely not. I think what we are trying  
18 to say, or--the testimony actually reads  
19 relatively well, that we have not developed  
20 the precise rates for these bundles. And it  
21 would be unrealistic, since we haven't had an  
22 opportunity to come together as a merged  
23 entity, to do that pricing.

24 Q Let me ask you this, you use, further down on

1 page 13, I think at line 20, you use the  
2 phrase "in depth planning." Now let me just  
3 ask you do you consider identifying for the  
4 Commission which services will be packaged  
5 post merger to be "in depth planning?"

6 A No, and I believe we have talked about that  
7 in my testimony and in the various data  
8 requests as to what services will be  
9 packaged. We have even used examples of how  
10 we are packaging these services today and  
11 will be expanding that into other markets,  
12 including Kentucky. I believe we have  
13 fulfilled the Commission request for details.  
14 We are unable to provide pricing, which I  
15 don't believe is unreasonable at this time.

16 Q But you think you--we will move on after this  
17 question, Mr. Kissell, but you think that you  
18 have addressed the Commission's request that  
19 you identify the packages of services that will be  
20 offered customers, you feel you have addressed  
21 that?

22 A Yes, I do.

23 Q Now, if you have handy your GTE and Bell  
24 Atlantic's responses to the Commission's data

1 request in this docket, 99-296, I believe you  
2 all filed those on August 9 in this  
3 proceeding. If you don't have a copy handy  
4 I'll--I can give you mine.

5 A I do.

6 Q You and Mr. Reed are responsible for the  
7 joint applicant's response to the Commission  
8 Data Request Number 2 regarding  
9 implementation of CLASS services to 100% of  
10 GTE's exchanges in Kentucky. I'd like to ask  
11 you about the very end of the response where  
12 the joint applicants state that this is not a  
13 commitment, and I'm quoting, "this is not a  
14 commitment, it is not an approved plan and is  
15 subject to change." And I need to clarify  
16 with you this morning, does this statement  
17 refer to the implementation of the CLASS plan  
18 as a whole or a particular aspect of it?

19 A I believe it is specific to that paragraph.  
20 I mean, our commitment to expand CLASS  
21 services in the time period that we stated is  
22 a firm commitment. It is whether or not we  
23 can do the 25% of the remaining lines each  
24 year that isn't a firm commitment at this

1 time.

2 Q That's not--

3 A Subject to equipment availability, right-of-  
4 way availability and doing an economical and  
5 rational integration with other Kentucky  
6 service quality issues. We are committed to  
7 and we have made the commitment to make 100%  
8 of our offices CLASS capable. The  
9 contingent--this is not a commitment, not an  
10 approved plan merely deals with the pace of  
11 that roll out, as stated in that paragraph.

12 Q Okay. Is there any other aspect of your  
13 commitment to provide CLASS services that is  
14 not firm at this time that you would like to  
15 identify for the Commission?

16 A I guess I'd prefer to defer that to Mr. Reed,  
17 but I'm not aware of any.

18 Q Thank you Mr. Kissell. I'd like to stay with the  
19 Commission's data request responses that you filed  
20 on August 9 for a minute since you have that in  
21 front of you. If I could refer you to the joint  
22 applicant's response to the Commission Data  
23 Request Number 3 regarding proposed infrastructure  
24 commitment. Are you with me Mr. Kissell?

1 A I am with you.

2 Q Now, at the very end of that response you  
3 state that the joint applicant's would not  
4 have made such a commitment in the absence of  
5 the merger?

6 A That is correct.

7 Q Are you familiar with the joint applicant's  
8 responses to Sprint's data request filed in  
9 this docket I think on the same day, August  
10 9?

11 A Yes, sir.

12 Q Okay. Do you recall a response where the  
13 joint applicants state that they have spent  
14 approximately \$85 million the past two years  
15 on infrastructure in Kentucky?

16 A I'd like a reference please?

17 Q Okay. Do you have the Sprint data request  
18 responses in front of you--

19 A Yes, I do, sir.

20 Q --while I'm looking for that? Thank you.  
21 Okay. We will be referring to GTE's and Bell  
22 Atlantic's responses to requests number 17  
23 and 18. Right now I'd like you to look at  
24 number 18, the response there. I believe Mr.

1 Reed was responsible for this response, but  
2 do you accept, subject to check, and you are  
3 checking now, that GTE has invested  
4 approximately \$85 million in each of the  
5 calendar years 1997 and 1998 for its  
6 infrastructure development in Kentucky?

7 A Specifically, the numbers \$84,592,675 in 1997  
8 and \$85,086,008 in 1998.

9 Q Thank you Mr. Kissell, and if you could flip back  
10 to the response, the prior response number 17?  
11 And, of course, this is an estimate that Mr. Reed  
12 provided, but you will see that the estimate  
13 infrastructure expenditure in Kentucky for 1999  
14 will be \$74 million, that is the current estimate;  
15 is that correct?

16 A Again, what is the site on that?

17 Q I'm sorry, it is the prior response.

18 A Number 17?

19 Q Number 17, it should be on the next--the  
20 previous page?

21 A Yes, sir.

22 Q Okay. So, I guess my question is, Mr.  
23 Kissell, you say that the commitment of \$222  
24 million for three years wouldn't have been

1           made in the absence of a merger, but the  
2           level of spending on infrastructure in  
3           Kentucky would not appear to be affected by  
4           the merger; would you agree with that?

5    A    I'm sorry, we are saying the joint  
6           applicant--

7                    COMMISSIONER GILLIS:

8                            Would you hold the microphone closer to  
9                            you, I'm having a hard time hearing you.

10   A    I'm so sorry. The statement is the joint  
11           applicants would not have made such a  
12           commitment in the absence of a merger.

13   Q    Right.

14   A    And then you added a qualifier.

15   Q    Well, sir, I will restate my question. Would  
16           you like me to restate my question?

17   A    Yes, sir.

18   Q    You appear to be saying that the \$222 million  
19           infrastructure commitment would not have been made  
20           in the absence of a merger. If you cut that 222  
21           into three--portions of three, because I believe  
22           it is supposed to apply to the three years after  
23           the merger, that would be approximately \$75  
24           million a year; is that correct?

1 A That is correct.

2 Q Would you agree with me, after looking at the  
3 responses to 17 and 18 and the Commission's  
4 data request responses, that the level of  
5 spending on infrastructure in Kentucky would  
6 not appear to be affected by the merger one  
7 way or the other? Do you agree with me?

8 A No.

9 Q Can you explain your response please?

10 A I think what we are stating here is that the  
11 companies, the joint applicants, have made an  
12 on the record commitment that we will spend  
13 \$222 million in the Commonwealth of Kentucky  
14 over the next three years. We have never  
15 made that commitment before. And if it  
16 wasn't for the request of this Commission for  
17 what assurances the joint applicants would  
18 give the Commission regarding the maintenance  
19 of service quality levels, we would not have  
20 been making a forward commitment of \$222  
21 million of capital. And that is what the  
22 sentence, the joint applicants would not have  
23 made such a commitment in the absence of a  
24 merger.



1 Q But the commitment you are talking about is  
2 no different than the history in front of the  
3 Kentucky Commission, historical commitment  
4 that you have made in the two prior years,  
5 calendar years?

6 A We have spent, in prior years, a varying  
7 amount of which it is lower in 1999 than in  
8 prior years--

9 Q Okay.

10 A --because of the needs of the--of our  
11 operations in Kentucky to maintain and  
12 improve the level of service. But we are  
13 making a forward looking commitment of \$222  
14 million, something that GTE South has never  
15 been asked to do in the past, never made in  
16 the past, which is a forward looking  
17 commitment.

18 Q Let's talk about the nature of your  
19 commitment for a minute, Mr. Kissell. Now,  
20 the infrastructure commitment that the joint  
21 applicants discuss in this proceeding is not  
22 an absolute commitment, is it? Because you  
23 reserve the right to alter the commitment in  
24 the event that certain apparently unspecified

1 changes in economic conditions occur.  
2 A I don't--I don't believe that this  
3 Commission--and I know that prudent  
4 management practice would not recommend  
5 uneconomic investment in Kentucky. And  
6 should economic conditions, which I would  
7 presume the Company would be held to prove  
8 that economic conditions or business  
9 conditions had changed substantially, but it  
10 makes no sense to invest in facilities if  
11 there aren't customers that are going to use  
12 them. That is the only caveat that we have  
13 put on this. And I believe that this  
14 Commission would be justified in bringing the  
15 Company to task if per chance we decided that  
16 the economic conditions did not warrant that  
17 level of investment in this Commonwealth.  
18 That's the only caveat that was put on it and  
19 I believe that is, again, it is just good  
20 business practice and I believe it is good  
21 regulatory practice.

22 Q Do you still have the responses to the Sprint  
23 data request in this docket in front of you?

24 A Yes, I do, sir.

1 Q If you could flip to response number 13?

2 Now, you are generally familiar with the  
3 responses; is that correct?

4 A Yes, I am.

5 Q Okay. The question asked the joint  
6 applicants to provide examples of changes in  
7 economic conditions and I'd like you to--  
8 based on your own knowledge and Mr. Reed's  
9 response, can you cite to us what specific  
10 changes in economic conditions we are talking  
11 about?

12 A I can give examples, it will not be all  
13 inclusive.

14 Q Okay.

15 A If the competitive nature in the Commonwealth  
16 of Kentucky would continue to expand in the  
17 pattern that we--that I think we are seeing,  
18 resulting in a significant loss of market  
19 share on behalf of GTE South, basically  
20 negating the need for additional capital,  
21 that would be one instance that I think would  
22 change. If there was a significant downturn  
23 in the Kentucky economy, and I can't think of  
24 a specific example, but if the University of

1 Kentucky would relocate outside of GTE's  
2 franchise territory, that would necessitate a  
3 relook at the capital programs. I mean,  
4 those are two that jump right to mind.

5 Q Okay, and let me make sure I understand. One  
6 was loss of market share, has this--is this  
7 interstate, local exchange market share we  
8 are talking about?

9 A A pretty general comment but, I guess as a  
10 for instance, if today we are seeing line  
11 growth in the State of Kentucky--I would  
12 believe along the lines of 4%, 5% line  
13 growth--that requires a certain amount of  
14 capital to maintain to keep pace with that  
15 growth. If that line growth would go to zero  
16 as a result of competitive inroads, clearly,  
17 the requirement for additional capital would  
18 be impacted. I think I stated, you know, the  
19 loss of some major customers in our  
20 operations in Lexington, the University of  
21 Kentucky being a very large player. I mean,  
22 these are all things that I think would make  
23 us relook at the capital commitment and talk  
24 to the Commission about why perhaps it isn't

1 in the ratepayers' and Kentucky's best  
2 interest to spend this money.

3 Q And you said a minute ago that you didn't  
4 intend for this to be an all inclusive list,  
5 so there might be other conditions that might  
6 affect the commitment? Did you?

7 A I mean, that is what I said and I'm racking  
8 my brain to think what those might be, but,  
9 clearly, I think it isn't in this  
10 Commission's best interest for us to be  
11 making uneconomic investments. I think the  
12 commitment that we have made is that we are  
13 going to spend \$222 million over three years  
14 is the minimum level of investment. And  
15 that, you know, should economic conditions or  
16 operational conditions change we would be  
17 explaining to the Commission why we didn't  
18 feel it was prudent to spend that money.

19 Q I'd like to flip back to the joint  
20 applicant's responses to the Commission's  
21 data request, if you have those still handy.  
22 And I'm looking at the response to number  
23 six, which has to do with best practice. Let  
24 me know when you are with me, please, Mr.

1 Kissell.

2 A Yes, sir.

3 Q You and Mr. Bone are responsible for this  
4 response to the Commission Data Request  
5 Number Six regarding the implementation of  
6 best practices and you state in the response  
7 that the identification of these best  
8 practices requires a detailed review of both  
9 companies' systems, processes and policies,  
10 and that this review takes time to complete;  
11 is that a correct statement?

12 A That is a correct statement.

13 Q Now, the proposed GTE Bell Atlantic merger  
14 was first announced in July of last year; is  
15 that correct?

16 A That's correct.

17 Q Let me ask you, with those two facts and sort of  
18 juxtaposed, it appears that you may be saying that  
19 the review to identify best practices takes a  
20 period of time, longer than a year to complete; is  
21 that correct?

22 A Well, I think first and foremost our  
23 shareholders did not approve the merger until  
24 May of this year, so there is a certain

1 degree of arms length discussion. I mean,  
2 there is a legal restriction and I'm not a  
3 lawyer, as far as how much information can be  
4 shared between the two companies and how  
5 detailed you can delve into a potential  
6 merger partner's business practice and  
7 operations. It is more than a year. We  
8 supplied, as a part of our data request to  
9 Sprint, number four I believe, a wealth of  
10 information of the work of all the teams on  
11 identifying these merger or best practices  
12 and areas of potential synergy. I think one  
13 that--I think shows the complexity of the  
14 process was when we put our call centers side  
15 by side and we found that for some  
16 unexplained reason GTE has more calls into  
17 their call center than does Bell Atlantic, on  
18 a per customer basis. Now what that--I mean,  
19 that level of information sharing wasn't  
20 possible until we had gotten at least some  
21 way through the merger process. Now that we  
22 have that fact we are saying well, goodness,  
23 there seems to be more calls into the GTE  
24 call center than into the Bell call center,

1 we are doing a lot of route cause analysis to  
2 figure why that is. That is not a best  
3 practice that just bubbles up to the surface,  
4 it requires detailed analysis and why are  
5 they calling into GTE's call centers in  
6 greater levels than into Bell Atlantic? You  
7 know, what is it--you know, have we not done  
8 as good a job explaining the billing process,  
9 is there something else that they are doing,  
10 using Internet or IVRUs to handle some of  
11 these calls. So it is not a simple process  
12 of putting employee manuals side by side and  
13 lining them up and saying, well, gosh, this  
14 is an immediate change we can make. They  
15 have identified some low hanging crude, I  
16 mean, I think one of them that I'm personally  
17 aware of deals with their marketing practices  
18 in intraLATA toll. I mean, Bell Atlantic  
19 clearly has done a much better job than GTE  
20 at marketing its intraLATA toll and retaining  
21 customers. So, I mean, it is an ongoing  
22 process.

23 Q Okay, I just wanted to clarify something  
24 before I move on with this line of



1           questioning. You refer to the Sprint data  
2           request number four?

3       A     That's correct.

4       Q     And I believe you characterized it as having to do  
5           with best practices, do you have that in front of  
6           you?

7       A     Yes, I do, sir.

8       Q     Now, I'm just going to deal with the question  
9           because obviously the response contains a lot  
10          of proprietary material. But the question  
11          says, "Please identify and produce all  
12          documents relating to location projects and  
13          organizational structure of the proposed  
14          merged entities, combined local service  
15          centers and related OSS. It doesn't mention  
16          the best practices of synergies that you  
17          mentioned earlier does it?

18      A     No. But the response that we provided to  
19           Sprint in many of the instances talks about  
20           the best practices and does a side by side  
21           between GTE and Bell Atlantic. And in many  
22           instances--and some instances actually  
23           contains best practices from an industry  
24           level where perhaps GTE and Bell Atlantic

1           neither one is the industry leader.

2    Q    I'd like to direct your attention back to  
3           your response to Sprint Data Request Number  
4           12 which you should still have close by.  You  
5           characterized GTE's recent--

6    A    Please?

7    Q    Oh, I'm sorry, number 12.

8    A    I don't flip as fast as you talk.

9    Q    I'm sorry.  If I'm going too fast we can  
10           certainly pause.

11   A    I'm there, thank you.

12   Q    There you characterize GTE's recent service  
13           quality as excellent and, assuming for the  
14           moment that that is true, to what degree can  
15           GTE service improve by utilizing Bell  
16           Atlantic's best practices after the merger?

17                   MR. CARLISLE:

18                   I'm going to note an objection at this  
19                   point.  This is another data request  
20                   that Mr. Reed was identified as the  
21                   primary witness on, although Mr. Kissell  
22                   is familiar enough with best practices  
23                   that I presume he can answer the  
24                   question as phrased, but I just wanted

1 to note that for the record.

2 CHAIRMAN HELTON:

3 Mr. Atkinson, would you like to refer  
4 the question to Mr. Reed or would you  
5 like Mr. Kissell to answer it?

6 MR. ATKINSON:

7 If Mr. Kissell can answer it, I would  
8 like him to, Madam Chairman, but we can  
9 certainly refer that to Mr. Reed if he  
10 prefers.

11 A I would like this question referred to Mr. Reed if  
12 possible.

13 Q Certainly. And this may be better referred  
14 to Mr. Reed as well, and I'll let you be the  
15 judge, but to your knowledge is GTE currently  
16 aware of better management practices that it  
17 has not adopted?

18 A No. I believe that we are aware of other  
19 companies having better results and that our teams  
20 have spent a significant amount of time trying to  
21 understand why other companies have been able to  
22 achieve greater results than GTE in attempting to  
23 do the root cause. I think one of the benefits of  
24 the merger is that instead of looking at publicly

1 available information we are going to be able to  
2 sit down with another very successful  
3 telecommunications firm and compare not only  
4 operating practices but operating philosophies.

5 Q Okay. One more set of questions on this  
6 general topic. Mr. Kissell, do you have Mr.  
7 Shore's testimony handy?

8 A I do not.

9 Q I'll have to lend you my copy, Mr. Kissell,  
10 if you will tell me if I'm reading, based on  
11 my notes, the passage that I'm going to refer  
12 you to correctly. It is Mr. Shore's direct  
13 testimony, beginning at page eight, line 19.  
14 One moment, Madam Chairman. I'd like to  
15 refer you to the following page, page nine,  
16 beginning at line seven, where Mr. Shore  
17 states: "However, based on information  
18 available at this time, I cannot quantify  
19 that portion of the estimated merger savings  
20 that would occur as a result of the adoption  
21 of best practices. Accordingly, no  
22 reductions in sharable savings has been made  
23 and, as a result, the savings calculation may  
24 be overinclusive." And my question is, you

1 had mentioned Bell Atlantic marketing  
2 practices a little while ago?

3 A Yes, sir.

4 Q And I'll follow this up with Mr. Shore, but  
5 it doesn't appear that Mr. Shore was aware of  
6 Bell Atlantic marketing practices being  
7 identified as a specific best practice; would  
8 you agree with me?

9 A I'm trying to think how he would know. That  
10 does not surprise me.

11 Q Okay. I'll take that up with Mr. Shore, Mr.  
12 Kissell. Let me refer you back to your  
13 rebuttal testimony. Looking at page seven,  
14 line 17 through 19,--

15 A Yes, sir.

16 Q --there you state: "In Kentucky, Bell  
17 Atlantic has virtually no brand awareness  
18 (less than 5% of consumers outside of Bell  
19 Atlantic's territories even recognize their  
20 brand name) . . . ." You appear to be  
21 quoting from some internal Bell Atlantic  
22 survey or joint applicant survey regarding  
23 brand recognition and if you could just  
24 identify the basis of your statement there it

1 would be helpful.

2 A As part of our naming process we did a study  
3 of the brand equity of both GTE and Bell  
4 Atlantic and that is where that statistic  
5 came from.

6 Q Did this naming analysis, I guess, which was  
7 an internal study, did it account for or try  
8 to measure Bell Atlantic's brand recognition  
9 in states where Bell Atlantic has a large  
10 local presence in adjoining--immediately  
11 adjoining territories?

12 A It actually was not state specific, it  
13 attempted to identify in and out of franchise  
14 brand awareness.

15 Q Do you happen to know, just based on your  
16 knowledge, Mr. Kissell, how many access lines  
17 Bell Atlantic has in Virginia?

18 A No, I do not.

19 Q Okay. But you are not asserting, are you,  
20 that consumers brand awareness is completely  
21 coextensive with the borders of their state  
22 are you?

23 A No, we have found where there is--I mean, in  
24 our own analysis of GT's brand awareness

1           there is usually some awareness of our brand  
2           in marketing areas where there is bleed over  
3           of radio and television signals. I think, in  
4           this particular case, Bell Atlantic's brand  
5           awareness in Kentucky and Lexington, I think,  
6           we would be right there with the national  
7           average of less than 5% of the people in  
8           Lexington. It would be my opinion as a  
9           marketing person that less than 5% of the  
10          people in Lexington could identify who Bell  
11          Atlantic is and what services they provide.  
12          I think as you went to Louisville, again, it  
13          would be right there with the national  
14          average of less than 5%. Now, perhaps if you  
15          went along the border of Kentucky and, again,  
16          I don't know of any market areas or DMAs that  
17          would have radio signals and TV signals that  
18          bleed over, and my recollection is that that  
19          is relatively rural so I doubt that there is.  
20          So, I feel pretty confident in what I said  
21          that this 5% is representative in Kentucky.  
22          Q       Thank you Mr. Kissell. Let me direct you to  
23          your rebuttal testimony which you should  
24          still have in front of you. Let me get you

1 to flip back a couple of pages to page three,  
2 line four. There you mention the planned  
3 competitive entry into Louisville.

4 A That's correct.

5 Q Have you reviewed a transcript of the prior merger  
6 hearing in Docket 98-519 before the Kentucky  
7 Commission?

8 A Parts of it, yes.

9 Q Do you recall Mr. Jacobi's testimony?

10 A That was part that I reviewed.

11 Q Okay, it was a part that you looked over?

12 A I looked at it.

13 Q Okay. I've got a transcript here if we need to  
14 flip back to it, but I just wanted to get sort of  
15 a then and now response, I guess, from you Mr.  
16 Kissell. During the last merger hearing Sprint  
17 cross-examined Mr. Jacobi regarding details for  
18 the planned entry into Louisville and he said at  
19 the time he didn't have any of the specifics on  
20 the Louisville entry right now. And I'd like to  
21 ask you are you in a better position, I guess it  
22 has been five months, almost six, since the prior  
23 hearing, are you in a better position to give the  
24 Commission more details about the planned entry



1           into Louisville?

2       A    I think I can talk to it generally.  Specific  
3           entry plans have not been developed for the  
4           21 markets that we have identified.  I  
5           believe we have come a lot farther as a team  
6           in identifying how we would enter the market,  
7           specifically building off of our investment  
8           in the--our global network infrastructure,  
9           which goes through Louisville, Kentucky, our  
10          intent to target medium to large businesses,  
11          our intent to attempt to make market entry  
12          based upon our data assets, meaning the  
13          exper--the skill and expertise we have  
14          acquired in the GTE acquisition of BBM, the  
15          investment we have made in the fiber backbone  
16          that we purchased from Quest.  It is our  
17          intent to and, again, to make inroads into a  
18          market like that will require us to go in  
19          leading, I think, with our strength, which is  
20          data, and then leveraging that--relationships  
21          that we build with those customers as a data  
22          provider into voice, hopefully using voice  
23          over IP, as that technology evolves.  Again,  
24          we haven't been able to do specific account

1 planning, to really sit down with Bell  
2 Atlantic and say, all right, we know from  
3 publicly available information what  
4 headquarters locations you have in Bell  
5 Atlantic territories that have operations in  
6 Louisville, Kentucky, you know, and then  
7 developing the account plans to do the  
8 specific roll out of the product. But I  
9 think we have moved well along that path, but  
10 as far as, you know, which streets we are  
11 going to have to dig up or whether or not we  
12 are going to be successful in our trial of  
13 wireless switching in San Francisco, which is  
14 something that I believe goes into the alpha  
15 trial where we are converting a wireless  
16 switch, a Lucent wireless switch in San  
17 Francisco to provide voice switching. In  
18 that trial, I believe if my information is  
19 current, that we bring up a trial customer  
20 later this year.

21 Q Is that in California?

22 A That's in California, San Francisco.

23 Q Okay.

24 A But, again, I mean, that is as far as we have

1 taken the actual market entry.

2 Q Some of these--I only have just a couple of  
3 specific questions that I'd like to ask you  
4 and I know that many of the specifics are not  
5 available based on what you just said, for  
6 the competitive entry. A couple of these  
7 were also asked Mr. Jacobi, but let me just  
8 ask you, do you know at this point whether  
9 the entry will be resell based or facilities  
10 based or both? What is your expectation?

11 A My expectation is it will be both. Clearly,  
12 we have an asset in Louisville in the GNI, so  
13 that--I mean, that is the first--that is the  
14 facility backbone. How we gain last mile  
15 access to the customers I think will either  
16 be done by--through resell or through  
17 contracting with competitive access  
18 providers, or even perhaps by a new  
19 technology we are starting to get excited  
20 about, which is point-to-point, high band  
21 with wireless.

22 Q Would those details for any of those three  
23 possible entry modes have not been worked  
24 out? I think you mentioned point-to-point?

1 A No, they have not, sir.

2 Q You mentioned resell and you mentioned an  
3 agreement with a competitive access provider?

4 A That's correct.

5 Q But you can't tell us whether any or all of  
6 those methods would be used?

7 A No.

8 Q One more question on this line, Mr. Kissell.  
9 Will the competitive entry into Louisville be  
10 targeted to business, primarily to business  
11 customers, primarily to residential customers  
12 or both?

13 A I believe in an earlier answer I stated that  
14 we are going to target medium to large size  
15 business customers initially. And, again,  
16 that is because they are the largest  
17 consumers of data product which we feel will  
18 be our competitive advantage as we enter the  
19 Louisville market against the incumbent  
20 BellSouth, against AT&T, against Sprint,  
21 against MCI WorldCom.

22 Q I believe I have just one more line of  
23 questions for you Mr. Kissell. I'll check  
24 after we conclude with this, but if you have

1 got your rebuttal testimony I'd like to  
2 direct you once more to that. I'm looking at  
3 page five, lines 1 through 2. And you state  
4 --I'm sorry, are you there?

5 A I'm there.

6 Q You state, "Whether or not CLASS services  
7 meets the FCC's definition of 'advance  
8 services' is utterly beside the point." Is  
9 that correct? Is that a correct statement of  
10 what you said?

11 A That is correct.

12 Q Now, you would agree with me that the  
13 Commission's April '99 order in the prior  
14 merger docket before the Kentucky Commission  
15 asked GT and Bell Atlantic to identify  
16 advanced services that will be offered to  
17 Kentucky consumers; would you agree with  
18 that?

19 A I would agree with that.

20 Q Can you identify for us this morning any  
21 state regulatory commission or FCC order that  
22 offers a definition of advance services that  
23 includes CLASS features?

24 A No, I mean, not off the top of my head. I

1 mean, advance services, the definition of  
2 advance services is not an industry standard  
3 definition, it is not like CLASS. When you  
4 say CLASS services it is generally accepted  
5 in the industry how that is applied. I don't  
6 know with advanced services that the  
7 definition has reached that level of art. I  
8 believe--again, I believe the company has  
9 made a sincere and meaningful commitment to  
10 roll out CLASS features to all of its  
11 Kentucky subscribers and I think that is a  
12 pretty substantial commitment and I think it  
13 increases the value of telecommunications  
14 throughout the Commonwealth. I'm confident  
15 that that is a sincere and meaningful  
16 commitment.

17 Q I think one more referral and we will be done  
18 Mr. Kissell. If you have the joint  
19 applicant's response to Sprint's data  
20 request, I'm looking at request number six  
21 where a portion of an FCC Order is quoted.

22 A Yes, sir.

23 Q This is a definition of advanced services  
24 from a recent FCC Order: "Re: In the Matters

1 of Deployment of Wire Line Services Offering  
2 Advanced Telecommunication Capability." I'll  
3 give you a minute to look over that. But my  
4 question is that this definition of advanced  
5 services is offered by the FCC, it talks  
6 about primarily broad band capabilities; is  
7 that correct? High quality voice data  
8 graphics?

9 MR. CARLISLE:

10 We are gong to object to this question  
11 for the same reason that we objected in  
12 our response to the original data  
13 request. There is no indication in this  
14 Commission's April Order that it was  
15 talking about the same definition that  
16 the FCC is talking about. So, the  
17 question itself when it was asked in  
18 this data request is irrelevant and it  
19 is irrelevant here as well.

20 CHAIRMAN HELTON:

21 Mr. Atkinson, you may ask your question,  
22 I think the Commission was well aware of  
23 what they meant by advanced services  
24 when they put it in their Order.

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MR. ATKINSON:

Thank you Madam Chairman, no further questions. Thank you Mr. Kissell.

A Thank you Mr. Atkinson.

CHAIRMAN HELTON:

Ms. Chevront?

MS. CHEAUVRANT:

(Nodded head indicating no.)

CHAIRMAN HELTON:

Mr. Wright?

CROSS EXAMINATION

BY MR. WRIGHT:

Q Mr. Kissell, do you have the targeted date or approximate date when you anticipate that the merger will be consummated and completed?

A We have had several of them and, clearly, the process of gaining approval of the merger among all the regulatory bodies has continually pushed back the merger consummation date. I think the most recent date that I've seen is the end of January of 2000. And, again, that is subject to a number of unknowns.

Q On page six of Mr. Griswold's testimony he



1 talks in terms briefly and broadly of the  
2 corporate structure. Can you give the  
3 Commission a more detailed vision or view of  
4 the corporate structure after the merger?  
5 A There was some discussion of that in the  
6 application at page nine, I believe, as well  
7 as in the proxy statements. But as I  
8 understand the merger, the holding company,  
9 GT--or Bell Atlantic has created a  
10 corporation or a legal entity called BetaGama  
11 Corporation, of which the holding company,  
12 GTE, would be merged with, merged into that  
13 BetaGama Corporation and become a subsidiary  
14 of the holding company Bell Atlantic. So, in  
15 the end, there would be two basic--if you  
16 drew a box at the top with Bell Atlantic as  
17 the legal holding company and two boxes  
18 beneath it, one being GTE and the other being  
19 Bell Atlantic, the operating companies, that  
20 is the general structure from a legal  
21 perspective of how the corporations would be  
22 organized. And it is not unsimilar to the  
23 way GTE is organized today with GTE Service  
24 Corporation being the holding company and

1 several legal entities that make up the total  
2 family of GTE. There are subsidiaries of  
3 that holding company.

4 Q Any idea on the split of GTE management staff  
5 as opposed to Bell Atlantic? Is there going  
6 to be a mixture and if so, what type?

7 A To the best of my knowledge, they have not  
8 made any specific commitments, is it one to  
9 one, is it, you know, 1.2 Bell Atlantic  
10 management people every GTE management  
11 people, they haven't done that level of  
12 detail. But the commitment that was made to  
13 the executive staff, in some of the earlier  
14 discussions and to the employees, is that  
15 there would be a mix of Bell Atlantic and  
16 GTE. I think it is indicative that the  
17 Chairman of the new corporation will be  
18 Charles Lee who is the Chairman of GTE, the  
19 second in command would be Ivan Seidenberg,  
20 and they have not named the next level of  
21 management. In large part because, again,  
22 there--while we are going through the merger  
23 approval process each management team is  
24 trying to manage their operations and the

1           commitment that our management team made to  
2           all of us was that we had to deliver--or the  
3           commitment that they required of us was that  
4           we had to deliver on 1999 results, had to be  
5           ready for the year 2000. So, they have not  
6           made any--they have not named any people  
7           beneath Ivan Seidenberg and Chuck Lee. I  
8           don't think they will until we are closer to  
9           the actual consummation of the merger.

10    Q       On page eight of Mr. Griswold's testimony, line  
11           27, he states the merger will not affect GTE  
12           South's day to day operations. My understanding  
13           is that you are Vice President of the Merger  
14           Integration.

15    A       That is correct.

16    Q       Okay. In doing that, in holding that  
17           position, how do you function? What are your  
18           responsibilities?

19    A       Specifically, the role that I was asked to  
20           take is going to deal more with pulling  
21           together the revenue plans of the two  
22           corporations, since I do have a marketing  
23           background within GTE. I am working with the  
24           merger integration teams in the development

1 of their plans. So, I think in this  
2 statement what--as we have gone through this  
3 process most of the--or virtually all of the  
4 synergies and all of the organizational  
5 changes that have been identified so far have  
6 dealt with staff functions, pulling together  
7 any you don't need, two marketing  
8 organizations, you don't need two HR  
9 organizations, two finance organizations, and  
10 how you pull those together. As far as the  
11 operations of GTE's operation in Kentucky,  
12 other than the corporate change and perhaps  
13 where they would be going for staff support,  
14 we have not identified any changes.

15 Q Okay. In analyzing the merger in taking the  
16 best practices from each of the companies,  
17 does that reach down to the depth of policy  
18 making on various under issues, perhaps at  
19 GTE or Bell Atlantic, or is this more of a  
20 functional, logistical, best practices?

21 A It is both. I mean, it is, you know, the two  
22 teams coming together and lying side by side.  
23 And a lot of it we have found is, you know,  
24 different approaches to the market and

1 different philosophies. But, you know, the  
2 easiest way we have found to deal with some  
3 of the more high level issues is to get into  
4 the details of what behavior it would change  
5 or what actual activity would or would not be  
6 done or how would it be done.

7 Q Okay. So, would that go so far down, for  
8 example, to Bell Atlantic's policy or  
9 philosophy on interconnect agreements?

10 A That will be something that will have to be  
11 resolved and I know that that is an issue of  
12 the wholesale team.

13 Q Would that likewise be an issue with GTE?

14 A The issue of bringing together the two  
15 policies on interconnection agreements?

16 Q Yes.

17 A That is something that will have to be resolved to  
18 the extent they are different.

19 Q Back to Mr. Griswold's testimony on page 21,  
20 line six--it actually starts at line five:  
21 "They will also benefit because the merger  
22 will enhance general competition - first in  
23 the large volume business/bundled services  
24 market but then spilling over to other

1 markets." I don't understand the concept of  
2 spilling over, what is spilling over and what  
3 other benefits are there after you attack the  
4 Louisville market?

5 A There are two examples, one would be the products  
6 and services that we introduce. Generally, the  
7 products and services we introduce to large  
8 business customers eventually go--migrate down  
9 into consumers and smaller business customers,  
10 frame relay is one that comes to mind. It started  
11 out as a service offering for larger business and  
12 now it is, you know, we have migrated that across  
13 to our small business customer base and, in fact,  
14 in some of our exchanges in Seattle we are running  
15 frame relay circuits to individuals homes. That  
16 is one instance of a spill-over where the initial  
17 target might have been large business. It is also  
18 our belief that as we build out our facilities to  
19 provide services to large businesses reuse of  
20 those facilities and expanding the addressable  
21 market to include small business and consumers is  
22 also a logical follow on to those investments.  
23 So, that generally is what was meant by the  
24 concept of spill-over.

1 Q But the concept of spill-over is not concerned  
2 with spill-over into other areas such as Kentucky,  
3 far western Kentucky or eastern Kentucky and  
4 provision for similar or like services for rural  
5 areas?

6 A It doesn't preclude that. It isn't perhaps  
7 inclusive of that but, again, frame relay is  
8 something that started predominantly in urban  
9 markets and has expanded to suburban and  
10 rural markets.

11 Q In entering the Louisville market under what  
12 name would the market be entered?

13 A That's--I mean, that is a matter of  
14 considerable debate right now and I  
15 apologize, I won't be able to give you a  
16 specific answer but I can at least give you  
17 the thought process. Our presumption would  
18 be that we would enter that market or the  
19 current thinking is that we would enter that  
20 market under the new company name. Since we  
21 are launching a new company name and will be  
22 given, hopefully, a lot of press around that  
23 name that that would be the best name to use  
24 as we move into markets that we currently

1 don't serve. Just an update on where we  
2 stand on the name, we are down to 15 names,  
3 15 possible names. We have gone through  
4 trademark review, not only in the United  
5 States but worldwide, and we are in the  
6 process of going through language reviews in  
7 all the countries that we do business to make  
8 sure that none of these 15 names are obscene  
9 in that language. It has been--that has been  
10 a very long and painful process.

11 Q Okay. So, it is going to be something other  
12 than GTE or Bell Atlantic?

13 A That is correct. That was the one commitment  
14 that was made early on in this process that  
15 we felt that the new corporation with the new  
16 vision of being a tier one communication  
17 provider in the data and voice world required  
18 a new name.

19 Q On page three of your testimony, starting at  
20 line seven: "By combining the scope and  
21 scale GTE's geographic proximity with Bell  
22 Atlantic's existing large business  
23 relationships, the merged company will have  
24 the opportunity to compete in Louisville, as



1 well as other Kentucky markets, much more  
2 quickly and effectively than either GTE or  
3 Bell Atlantic could without the merger."  
4 What parts of Kentucky are we talking about  
5 here?

6 A Specific in that question was--I mean, the  
7 only area that we have done a specific  
8 analysis on is Louisville, where we took the  
9 number of relationships that GTE had with  
10 companies in Louisville and the number of  
11 relationships that Bell Atlantic had with  
12 companies in Louisville. So, that is the  
13 only specific area that we have done any form  
14 of quantative study. I think as a  
15 qualitative basis it is our believe that the  
16 two companies together have a much greater  
17 potential to expand outside of our existing  
18 markets, be it Louisville, be it Frankfort,  
19 be it some other part of the Commonwealth.

20 Q On the same page, page three, line 18,  
21 GTECC's out-of-franchise strategy. Could you  
22 explain for the record's sake out-of-  
23 franchise strategy?

24 A The definition, as we used it here, is our

1 ability to expand and acquire customers  
2 outside of traditional wire line franchise  
3 territory.

4 Q You used the terms in here and I'm not sure--  
5 it is on page four, line 13, "anchor  
6 customers." Define anchor customers?

7 A The concept of an anchor customer is  
8 something we have used as we have developed  
9 some of our out-of-franchise plans and,  
10 basically, the concept is that if we have a  
11 relationship with a large business customer  
12 in our franchise territory that we can use  
13 that relationship to gain access to some of  
14 their business that they transact outside of  
15 GT's franchise territory. So, to use a  
16 specific example, the University of Kentucky  
17 to the extent that they have--that we have a  
18 very good relationship with that customer in  
19 Lexington and if we wanted to compete for one  
20 of their remote campuses outside of GTE's  
21 franchise territory, we could leverage our  
22 relationship with the telecommunications  
23 staff at--in Lexington at the Kentucky campus  
24 to gain access and gain the ability and

1           credibility to market outside of that  
2           franchise, outside of our franchise. So, in  
3           that instance, the University of Kentucky  
4           would be the anchor.

5       Q     Can you explain the geographic scope or  
6           aspect that's involved that is used in  
7           testimony?

8       A     I believe the quote--I'm sorry, the  
9           geographic aspect I believe I testified to in  
10          my direct testimony dealt with the fact that  
11          today GTE, although we service 28 states, we  
12          tend to be relatively spread out; Bell  
13          Atlantic, although they serve, you know, are  
14          larger than GTE, they are somewhat restricted  
15          geographically to the Mid-Atlantic states and  
16          the northeast. What the merger--what the  
17          merger, along with our commitment to enter 21  
18          cities, is going to do is create a geographic  
19          scope for the combined company that is truly  
20          national and is servicing most of the top 100  
21          business centers nationwide.

22       Q     But you are not using that term related to  
23           the State of Kentucky, only within the State  
24           of Kentucky?

1 A No, sir.

2 Q The \$222 million over a three year period, that's  
3 a commitment from the merger, where is that going  
4 to be spent, what is it going to be used for; do  
5 you know?

6 A Actually, the best person to ask the question  
7 would be Mr. Reed since he is actually  
8 responsible for most of that expenditure.

9 Q Was the term CLASS, as has been used as a  
10 group of services, CLASS, had that already  
11 been planned, was that already in the works  
12 prior to any merger talks?

13 A Absolutely not. My understanding is and,  
14 again, it was in one of the responses to the  
15 data requests, that if you extend the revenue  
16 that we expect to get from these CLASS  
17 services over the life of the asset, the  
18 investment in upgrading the facilities,  
19 software loads, things of that nature, that  
20 there was never a positive net present value  
21 from those investments. So, in our business  
22 planning process that business case would  
23 never have been approved.

24

1 CHAIRMAN HELTON:

2 Even though competitors would be coming  
3 in and offering the same services?

4 A Your Honor, in the markets that we are  
5 discussing, I don't know that they would be  
6 coming in and offering CLASS services.

7 CHAIRMAN HELTON:

8 Caller ID?

9 A Caller ID in the markets in which we are  
10 discussing them, yes, ma'am.

11 COMMISSIONER GILLIS:

12 Caller ID cost you maybe a nickel a  
13 month and you sell it for \$8 a month and  
14 you can't generate sufficient revenue  
15 out of such differential there?

16 A I think the--it costs about a nickel a month  
17 when spread over a sufficient volume of  
18 customers. And in the analysis that we have  
19 provided--or that we provided to the staff in  
20 response to their data request, if you added  
21 up all the revenue that we expected to  
22 receive from these services in these markets  
23 and compared it to the cost of switch  
24 replacements, software upgrades, in those

1 offices they did not--there was not a payback  
2 over a reasonable period of time.

3 COMMISSIONER GILLIS:

4 Okay.

5 Q On page seven of your testimony, along line 22 it  
6 talks in terms of GTE controls some of the  
7 capacity in the Qwest network and is building a  
8 new nationwide fiber network, known as the Global  
9 Network Infrastructure, to provide long distance  
10 service, Internet backbone service and advanced  
11 data services. How much is some of the capacity  
12 that GTE controls?

13 A We have contracted with Qwest to acquire 24  
14 of their fibers that they are building across  
15 the United States.

16 Q How does GTE control this capacity,  
17 ownership?

18 A I'm not sure what the legal relationship is  
19 but, as I understand it, of the fiber that  
20 they are putting into the ground, in one big  
21 conduit, GTE has acquired from them 24 dark  
22 fibers of which we are putting our own  
23 electronic, our own sonic equipment, our own  
24 lasers, to light the fiber.

1 Q Does this network come through Kentucky?

2 A Yes, sir.

3 Q Do you know about where?

4 A I believe I've seen a map. I'm sorry, I do  
5 not have it with me, I do know it goes  
6 through Louisville.

7 Q Do you know what kind of services it will  
8 provide?

9 A I don't know what our plans were as far as  
10 Kentucky but, in general, those fibers will  
11 provide--it is our intent to put voice  
12 private network traffic over that fiber as we  
13 achieve critical mass and voice long distance  
14 to move that traffic off of our resell  
15 agreement with MCI WorldCom onto that fiber.  
16 It is the backbone for our data products, our  
17 web services, our Internet. And we also  
18 intend to offer frame relay, ATM, and SONET  
19 based services.

20 Q Your testimony on page nine talked in terms of  
21 some services that are not now offered but that  
22 will be offered in the future, fiber ID, dial up  
23 ISP, do you know what the future--what future we  
24 are talking about in terms of time?

1 A I can't remember what all the services are. The  
2 integrated messaging, universal messaging on page  
3 ten, I believe that is subject to roll out, or  
4 scheduled to roll out yet this year. The FAX over  
5 IP services, GTE's rolled out to the cyber ID  
6 services--we have done the technical trials. I  
7 think we are in the process of narrowing down the  
8 vendors of the equipment, so they are all  
9 imminent.

10 MR. WRIGHT:

11 Thank you Mr. Kissell. That's all I  
12 have.

13 CHAIRMAN HELTON:

14 Redirect?

15 MR. CARLISLE:

16 Could we have a moment to confer?

17 CHAIRMAN HELTON:

18 Sure. Mr. Gillis?

19 COMMISSIONER GILLIS:

20 Go ahead, Your Honor.

21 MR. CARLISLE:

22 We have some redirect.  
23  
24



1 REDIRECT EXAMINATION

2 BY MR. CARLISLE:

3 Q Mr. Kissell, there was--your were questioned about  
4 the merged company's plans to enter Louisville and  
5 I guess I'd just like to ask you could you explain  
6 in a little more detail how the merger is going to  
7 enable you to be a more effective competitor in  
8 Louisville than GTE would be without the merger?

9 A Yes, sir. I think first and foremost one of  
10 the benefits that we identified in the merger  
11 in enabling us to pursue an out of franchise  
12 strategy was the relationships between Bell  
13 Atlantic with the headquarter locations of a  
14 number of companies that are spread out  
15 across the United States. And we have done,  
16 using publicly available information, we are  
17 able to show that there are pockets of those  
18 affiliates, branch offices, subsidiaries of  
19 those companies in 21 markets. So, I mean,  
20 right off the bat, GTE now has access to the  
21 decision makers in those firms, in a credible  
22 in a way, that was not possible on a stand-  
23 alone basis. With that we still have to  
24 prove that we are a qualified provider of

1 service and that the services that we offer  
2 are of the quality and price that they  
3 require. But that greatly shortens the sales  
4 cycle and greatly increases the probability  
5 of success. I think another attribute is the  
6 fact that GTE on a stand-alone basis would  
7 not have invested in a national brand the  
8 amount of money required to establish a  
9 national brand that rivals that of AT&T, MCI  
10 WorldCom, Sprint, was just too expensive.  
11 But with the merged company's commitment to  
12 being a national company to operate in the  
13 top 100 markets access to that national  
14 branding is now possible. So those are two  
15 of the primary benefits. I think the benefit  
16 to Bell Atlantic from the merger is the fact  
17 that whereas they had the relationships with  
18 the large business customers in New York, in  
19 Boston, in Philadelphia, they didn't have the  
20 credibility as being able to provide services  
21 nationwide because they didn't have  
22 operations, trunks, sales people, sales  
23 support. That is what GTE brings to the  
24 merger is the fact that with our 28-state

1 footprint we allow them to be more credible  
2 when they talk to their customers in New York  
3 about being able to provide services in Los  
4 Angels, in Seattle, in Texas.

5 Q Why aren't GTE and Bell Atlantic in a  
6 position today to provide precise entry plans  
7 for Louisville?

8 A Well, in large part, as I stated, or started  
9 to state earlier, our management team at the  
10 senior level is focused on delivering 1999  
11 results and maintaining the service level  
12 quality. They--there has been a conscious  
13 effort not to name people to positions below  
14 that of Mr. Lee and Mr. Seidenberg, precisely  
15 because they don't want to cause a  
16 distraction or disruption in operations, you  
17 know, in a period that could be six months  
18 before merger close. So I think the plans  
19 are being developed, the concepts are being  
20 developed, they should be relatively easy to  
21 finalize once the final decision makers are  
22 made. But I don't see that until we get much  
23 closer to merger close.

24 Q Moving on to some of the cross that you were

1 asked about CLASS services. Can you provide  
2 some more information about CLASS services,  
3 what they are and how their introduction into  
4 areas where they are not currently provided  
5 by GTE, how it is going to benefit customers  
6 in those parts of the states that don't  
7 receive them?

8 A This isn't hostile redirect is it? Well,  
9 first off, and again as I tried to explain,  
10 we go through a rather financial review of  
11 our introduction of CLASS services, actually  
12 of our introduction of many services, where  
13 we attempt to identify what the cost of  
14 upgrading the switch, the cost of putting the  
15 SS7 links into those exchanges. As a result,  
16 and we find areas not only in Kentucky but  
17 many of our states that we just cannot  
18 justify the investment based upon the return  
19 that we expect from that investment in  
20 getting those services. And, as a result,  
21 there are areas within GTE's franchise  
22 territory, not only in Kentucky but  
23 nationwide, that aren't allowed to get--or  
24 aren't provided by GTE, caller ID services,

1 selective call blocking, things of that  
2 nature. As a result, as a person with a  
3 teenager at home, you know, the ability to  
4 block calls from certain of their friends I  
5 found to be a very nice attribute, the  
6 ability to identify who is calling at eleven  
7 o'clock at night is another attribute that we  
8 find--these are all services that absent the  
9 merger would not be provided in a number of  
10 the exchanges identified in our direct  
11 testimony.

12 Q Can you--perhaps--well, can you characterize  
13 the sort of investment that is required in  
14 order to provide CLASS services in some of  
15 these territories?

16 A Again, Mr. Reed is much more qualified from a  
17 technical perspective, but there are switch  
18 replacements that we are going to have to do,  
19 there are software upgrades for those  
20 switches that are CLASS capable, there are  
21 links, but, again, Mr. Reed should be able to  
22 do an excellent job of explaining that.

23 Q In the areas where GTE doesn't provide CLASS  
24 services, in Kentucky and nationwide, is it

1           your experience that competitors have been  
2           able to come in and provide those services?

3    A       No.

4    Q       Is it your understanding that the Board of  
5           Directors of the merged company is going to  
6           consist of an equal number of GTE and Bell  
7           Atlantic directors?

8    A       Yes, sir. the Board of Directors will be  
9           made up as stated in the proxy statement of  
10          half GTE and half Bell Atlantic directors.

11   Q       Do you have any idea, by the way, of what the  
12          merged company is going to do to insure that  
13          when a new name is rolled out that GTE's  
14          current customers aren't subject to any  
15          confusion about what entity they are  
16          receiving service from?

17   A       No, again this is still work in progress but  
18          the presumption would be that any name that  
19          is rolled out will be--they will retain the  
20          legacy of the GTE name and the Bell Atlantic  
21          name. For example, it could be GTE South a  
22          Newco.com Company, or some other way of  
23          maintaining the affiliation.

24   Q       Okay. Will your current Kentucky customers

1 be better off with the merger or without the  
2 merger Mr. Kissell?

3 COMMISSIONER GILLIS:

4 Was that current or future?

5 MR. CARLISLE:

6 Current.

7 A I think current and future, I mean again it is  
8 obvious that I'm biased or I wouldn't be sitting  
9 here and I wouldn't have been selected by you as a  
10 witness, but I see no detriment from the merger.  
11 In the worst case I see nothing about the merger  
12 that will degrade service quality, that will  
13 hamper competition, that will do anything to  
14 negatively affect the quality of service provided  
15 in Kentucky or the variety of services provided in  
16 Kentucky. So that aside, I see no down-side. On  
17 the up-side, even if you ignore all the  
18 commitments, I think the merger is going to create  
19 a stronger telecommunications company in the  
20 Commonwealth of Kentucky. It is going to be a  
21 tier one provider of services, and then if you add  
22 in the commitments to CLASS services, the  
23 commitments to enter the Louisville market, the  
24 commitments to maintain capital improvement, those

1 are all icings on the cake. I hate to make a  
2 longer answer longer, but I see no down-side and a  
3 substantial amount of up-side for Kentucky  
4 consumers.

5 Q You mentioned that the merged company is  
6 going to provide data services in Louisville  
7 and that eventually these services are going  
8 to migrate out beyond the--or spill over past  
9 the initial targeted consumers. Do you think  
10 that this sort of process would occur more  
11 quickly or less quickly with or without the  
12 merger?

13 A Clearly our ability to enter the Louisville  
14 market is advanced by our merger with Bell  
15 Atlantic as a result of the introduction of  
16 those products, the pace of introduction, and  
17 the pace of the eventual spill over will be--  
18 has to be accelerated.

19 Q And do you think the introduction of advanced  
20 services in predominantly rural areas, for  
21 example, like eastern Kentucky, is going to  
22 occur more quickly or less quickly with the  
23 merger?

24 A In the absence--I mean there are no specific



1 plans but there can be--I mean if the pace of  
2 technological advancement is accelerated the  
3 pace of that migration out to rural Kentucky  
4 can only be accelerated also.

5 MR. CARLISLE:

6 I have no further redirect.

7 CHAIRMAN HELTON:

8 Mr. Atkinson?

9 MR. ATKINSON:

10 Thank you Madam Chairman, I just have one question  
11 on recross.

12

13 RECCROSS EXAMINATION

14 BY MR. ATKINSON:

15 Q Mr. Kissell, you and Mr. Carlisle just got through  
16 discussing provision of advanced data services in  
17 Louisville, based on our previous discussion I  
18 think I know what your response is going to be,  
19 but can you identify for us specific data services  
20 that you have in mind in your competitive entry in  
21 Louisville?

22 A Yes. VPM, virtual private networks, ATM  
23 frame relay, web hosting, Intranets,  
24 extranets, managed networks, I guess that is

1           what pops to mind.

2       Q     During our discussion previously you were  
3           not--you could not commit whether the  
4           competitive entry would be primarily  
5           business, but based on these advanced data  
6           services you just identified it sounds like  
7           that will at least be a leg of your entry  
8           will be for business services; is that  
9           correct?

10      A     I apologize for being unclear, but I think I  
11           was pretty specific it was business.

12                   MR. ATKINSON:

13                   Okay. I apologize if I misheard you.

14                   Thank you Mr. Kissell.

15      A     Thank you.

16                   CHAIRMAN HELTON:

17                   Ms. Cheuvront.

18

19

RE CROSS EXAMINATION

20                   BY MS. CHEUVRONT:

21      Q     You were asked the question about how the merger  
22           was going to affect Kentucky consumers--which I  
23           have to agree with you, with you sitting on that  
24           stand if your answer is going to be any different.

1           You went through how the quality of services was  
2           going to improve and the quantity of services and,  
3           basically, that it won't be a detriment to the  
4           consumers, what about the expenses of services  
5           provided in Kentucky?

6       A    I believe the company has identified a number  
7           of merger synergies, cost synergies, that we  
8           are going to achieve through the merging of  
9           the corporate offices and the corporate  
10          functions and the benefits from a larger  
11          purchasing, or more purchasing power, to  
12          drive down the cost of equipment. All of  
13          that will lead to reduced cost for operations  
14          across GTE and across Bell Atlantic, which  
15          through rate regulation will ultimately  
16          accrue to Kentucky consumers. So, again, I  
17          think it is pretty much unrefuted that there  
18          will be cost savings and then through  
19          regulation--rate regulation.

20       CHAIRMAN HELTON:

21           Mr. Wright.

22

23

24



1 that you have in Louisville and whether or  
2 not you are going to utilize that, and I  
3 think you have answered that. We have talked  
4 in terms of Louisville and how they are  
5 addressing Louisville and the benefits in  
6 Louisville, and I'm just--what is GTE and  
7 Bell Atlantic specifically going to do for  
8 far western Kentucky and for eastern Kentucky  
9 other than give them advanced basic CLASS  
10 service?

11 A I can't--I think we are committing to rolling  
12 out services in those markets that we  
13 wouldn't today. We have committed to  
14 maintaining their level of service with firm  
15 capital commitments. We have committed to  
16 the rolling out of additional local calling  
17 plans in those markets to allow them greater  
18 calling scopes. I mean those are subsitive  
19 commitments in our opinion.

20 CHAIRMAN HELTON:

21 Are you testifying that the roll out of  
22 those local calling plans is a result of  
23 the merger and was not already on the  
24 drawing boards of GTE South?

1 A You know, I'm not able to say they weren't on  
2 the drawing boards. I do know as directed by  
3 the Commission in the April Order of looking  
4 at what are the benefits, this was an area  
5 that if not accelerated was at least  
6 identified as one of the benefits we could  
7 bring to Kentucky consumers. For most of our  
8 regulatory process or, you know, the merger--  
9 it is hard to extract any decision as not  
10 having some implication from the merger.

11 Q But it sounds very clear that if this merger  
12 is not successful they don't get anything  
13 more than what they have got now?

14 A If the merger is not successful, then they  
15 won't--then they probably will not get CLASS  
16 services unless we can figure out a way to  
17 provide those services at less cost for  
18 increased demand for those services in those  
19 markets sufficient to offset the capital  
20 investment and the expense incurred to  
21 provide services in these rural areas.

22 MR. CARLISLE:

23 Can I just ask a point of clarification  
24 on the last question? Did you mean

1                   successful as in consummated or  
2                   successful as in a successful merged  
3                   entity?

4                   MR. WRIGHT:

5                   Consummated.

6       A       That's how I understood it.

7       Q       You were responsive to that.

8                   MR. CARLISLE:

9                   So--engagements, they break up.

10                  MR. WRIGHT:

11                  Okay, that's all I have, thank you Mr.

12                  Kissell.

13       CHAIRMAN HELTON:

14                  Mr. Gillis.

15       COMMISSIONER GILLIS:

16                  It appears from the testimony, and in looking at  
17                  your testimony specifically, that the number one  
18                  reason for merger is to get to the Louisville  
19                  market. Is that a good characterization of the  
20                  total merger?

21       A       No. I mean, I think that is one of the  
22                  benefits of the merger to Kentucky--one of  
23                  the benefits of the merger to Kentucky is the  
24                  expansion into Louisville. But, again, I

1 think even without the commitment to go into  
2 Louisville the increased scale and scope of  
3 the merged entity, the national aspirations  
4 which will allow the companies to more  
5 effectively compete with the national  
6 providers, I mean all the reasons--we did not  
7 enter into this merger just to go into  
8 Louisville. We entered into this merger  
9 because we believe that the market is going  
10 to continue to consolidate and eventually  
11 there is going to be at best four large  
12 national providers and a number of regional  
13 and nitch providers. And neither of our  
14 businesses could sustain a nitch strategy.  
15 So, the merger was driven--I mean at the  
16 earliest discussions it was more along that  
17 philosophy.

18 COMMISSIONER GILLIS:

19 A pure reading, and correct me, but a pure reading  
20 of testimony it appears that the number one reason  
21 for the merger is going into Louisville, and the  
22 existing service area of GTE almost appears to be  
23 a throw away area just as a result of the merger,  
24 because I'm having a hard time seeing any



1 additional improvements to the existing service  
2 area. Caller ID, in my opinion, is not an  
3 improvement to the existing service area. I mean,  
4 each of us have an opinion, but I can't see that  
5 caller ID is an existing improvement, a backbone  
6 improvement, yes, but not caller ID. Help me out  
7 where I'm going astray here.

8 A Well, again, if we put aside the Louisville  
9 entry, and I can say without fear of  
10 contradiction that that was not the driving  
11 force behind this merger. The opportunity--

12 COMMISSIONER GILLIS:

13 Not the total merger but within Kentucky  
14 specifically.

15 A Within Kentucky if you throw away that--throw  
16 away the Louisville entry, I think the  
17 benefit of bringing two companies together  
18 like Bell Atlantic and GTE will result in  
19 service quality improvements as a result of  
20 best practices. It will drive down the  
21 operational costs of GTE, in total, which  
22 will eventually be passed on through rate  
23 base regulations to Kentucky consumers. I  
24 mean, I think at absolute worst case, the

1           worst thing that could happen as a result of  
2           this merger on Kentucky consumers is no  
3           change at all. And then if you add in the  
4           fact of best practices, lower cost, more  
5           expansion of CLASS services, greater focus on  
6           sending out the local calling plan, that  
7           all--all of those benefits accrue to Kentucky  
8           consumers as a result of this merger  
9           independent of our commitment to move into  
10          Louisville.

11        COMMISSIONER GILLIS:

12           I guess--is part of--I just have a couple more.  
13           Is part of the thought process or on the drawing  
14           board to sell the rural areas in Kentucky to  
15           someone else?

16        A     Not that I'm aware of.

17        COMMISSIONER GILLIS:

18           Mr. Wright asked you about the \$222 million  
19           earlier, of what was included, and I will ask you  
20           can you tell us how much of that \$222 million will  
21           be spent toward entering the Louisville market?

22        A     None.

23        COMMISSIONER GILLIS:

24           And one final, just one other question, in Mr.

1 Griswold's testimony there is on page 19 of his  
2 testimony, there is a letter from Ms. Denise  
3 Bently addressed to me, noted as addressed to me,  
4 is she an employee of GTE or a consultant on  
5 contract with GTE or Bell Atlantic?

6 A I missed the page reference.

7 MR. CARLISLE:  
8 Nineteen.

9 A Thank you.

10 COMMISSIONER GILLIS:

11 Of Mr. Griswold, at the bottom of the page, last  
12 paragraph, "Denise Bentley, Alderwoman of the City  
13 of Louisville, stated in a letter to the  
14 Commission in the prior merger case, 'the  
15 individual companies are regarded as excellent  
16 Corporate Citizens.'" And then it is noted as  
17 being sent to me. And my question is, is she an  
18 employee or GTE or Bell Atlantic or a consultant  
19 or on contract with GTE or Bell Atlantic?

20 A Subject to check, Your Honor, I don't think  
21 she has any affiliation with GTE whatsoever.  
22 But I will check.

23 VICE CHAIRMAN HOLMES:

24 Commissioner Gillis talked about something I

1 wanted to follow up on was, you know, what  
2 benefits are there going to be to ratepayers in  
3 the franchised territory to be derived from your  
4 ability to enter the Louisville market? Are there  
5 any benefits from entering the Louisville market  
6 that will be accrued to the ratepayers in the  
7 franchise territory?

8 A Directly, no. I mean I can't come up with  
9 any off the top of my head. Indirectly, to  
10 the extent that there is a large community of  
11 interest between Lexington and Louisville,  
12 the ability to have end-to-end service  
13 provision between Louisville--locations in  
14 Louisville and Lexington will be of benefit.  
15 The increased ability or the increased market  
16 size to offset R and D cost in developing new  
17 products and new applications over a larger  
18 base of customers will be a benefit that will  
19 accrue to all of our consumers and customers.  
20 That's really all I can think of at this  
21 time.

22 VICE CHAIRMAN HOLMES:

23 Will your entry into the Louisville market be  
24 through facilities based or interconnection

1 agreement or how would that be accomplished?

2 A It will be a mix, Your Honor. Clearly we are  
3 building the G and I out through Louisville  
4 to the--we will have facilities there to the  
5 extent we can reuse those assets. But I  
6 don't think any entry of any scale can be  
7 done without some interconnection and resell  
8 and reuse.

9 VICE CHAIRMAN HOLMES:

10 Do you perceive a need for interconnection  
11 agreement with BellSouth?

12 A Yes, sir.

13 VICE CHAIRMAN HOLMES:

14 And just briefly on wireless, do you foresee any  
15 enhancement of the GT wireless operations, PCS  
16 roll out in Kentucky area?

17 A Our wireless plans are much further behind  
18 than our other plans because of the Primco,  
19 the relationship between Bell Atlantic and  
20 Primco has kind of held back their ability to  
21 set down. But I think one of the benefits  
22 will be if we are successful in the use of  
23 the San Francisco wire lines--wireless switch  
24 to provide wire line service, we would be

1 rolling that out in these markets.

2 VICE CHAIRMAN HOLMES:

3 When you say these--the Kentucky market or--

4 A Yes, the Kentucky market. Bell Atlantic  
5 Mobility is one of the industry leaders in  
6 wireless, so I think that would be an  
7 advantage. And then, lastly, the merged  
8 companies are going to have a national  
9 wireless footprint which will allow us to  
10 offer nationwide roaming plans and nationwide  
11 calling plans on a much more efficient basis.  
12 So--and those will all be offered nationwide,  
13 including Kentucky.

14 VICE CHAIRMAN HOLMES:

15 Including Kentucky. I see that as a benefit more  
16 so if we can deploy greater accessibility of  
17 wireless communications in Kentucky.

18 A And again our companies are committed to the  
19 wireless operations and it has been a real--  
20 Bell Atlantic Mobility or I think that is  
21 their--Bell Atlantic Mobile is one of the  
22 industry leaders in wireless communications.

23 VICE CHAIRMAN HOLMES:

24 That's all.

1 CHAIRMAN HELTON:

2 Going back to the \$222 million continuing  
3 infrastructure development, are you aware that  
4 there are some commitments that GTE South made as  
5 a result of the management audit and quality of  
6 service commitments to this Commission in eastern  
7 Kentucky that were already on the drawing board  
8 and that I assume are a part of this \$222 million?

9 A Mr. Reed would be a better witness to respond  
10 to that but I am aware of those commitments.  
11 I do know that we have made significant  
12 investment in '99 towards those commitments  
13 also.

14 CHAIRMAN HELTON:

15 Have you all made any revenue predictions of  
16 and/or cost predictions as to what it will take to  
17 enter the Louisville market and what your revenue  
18 would be from that?

19 A We have done studies of all the 21 markets and  
20 made estimates of the revenue potential and the  
21 expense potential of those markets, yes.

22 CHAIRMAN HELTON:

23 And if this map conveys accurately the major  
24 cities you are going into and Louisville is not

1 listed there, since all of these cities are much  
2 larger than Louisville you haven't given us any  
3 specific date as to when you are going into  
4 Louisville and you have said why, but could we not  
5 assume that the efforts from the new merged entity  
6 are going to be much greater in these cities than  
7 they are going to be in Louisville?

8 MR. CARLISLE:

9 May I ask what map you are referring to?

10 CHAIRMAN HELTON:

11 It was under tab 7 or 8, your wire line  
12 operations, shows the territory of GTE and Bell  
13 Atlantic and it has listed about 19 major cities.

14 A Well--

15 MR. CARLISLE:

16 For clarification I don't know that the map was  
17 submitted as an indication of priority as to where  
18 we were going into on the 21 cities. I think it  
19 was submitted as backup material to show you where  
20 Bell Atlantic and GT's wire line territories were  
21 just as a point of clarification.

22 CHAIRMAN HELTON:

23 Is there significant difference from the cities  
24 listed here in the 21 cities?



1 A Well, a number of the cities aren't the 21 cities,  
2 I mean Boston, New York, Philadelphia or  
3 Baltimore, Tampa, those aren't cities on the 21  
4 city plan, because those are existing territories.  
5 I think the question--the question that you asked  
6 was would the other markets get more attention  
7 than Louisville. I think as we roll out these  
8 plans it will be market opportunity and I don't  
9 know that Louisville will be the first on the  
10 list. Clearly it will be within 18 months, but  
11 once we perfect the entry mechanism I don't see--I  
12 see a pretty standard roll out nationwide of  
13 markets like Louisville, like Indianapolis. I  
14 think one of the benefits, you know, when we get  
15 to Louisville will be the fact that we have all of  
16 our mistakes in San Francisco by then, so--

17 CHAIRMAN HELTON:

18 The revenue predictions that you have made for  
19 Louisville, could we assume that since you have--  
20 that you are getting four years in rolling out  
21 these CLASS services which you are going to give  
22 your current customers the opportunity to purchase  
23 that the revenue that you are going to make in  
24 Louisville might offset the investment that you

1 are going to make in those CLASS services?  
2 A I've never married the two together. And I  
3 don't mean to be stuck in today but most of  
4 the--I mean it is our expectation that the  
5 increased expense associated with rolling out  
6 the CLASS services will be offset by cost  
7 savings as a result of the merger. That's  
8 the linkage I've always done in my mind, the  
9 introduction of, you know--the return on  
10 investment in Louisville, based on my  
11 expectations, would be a number of years  
12 before that would turn cash positive, just  
13 based on the initial up front investment and  
14 acquisition cost of customers there.

15 CHAIRMAN HELTON:

16 Any questions?

17 VICE CHAIRMAN HOLMES:

18 Just one additional. The services that will be  
19 offered in Louisville would they be available or  
20 offered similar services in your franchise  
21 territory, say, in the urban areas?

22 A Yes.

23 VICE CHAIRMAN HOLMES:

24 There will be similar services?

1 A Yes.

2 CHAIRMAN HELTON:

3 You're excused.

4 A Thank you, Your Honor.

5 CHAIRMAN HELTON:

6 We'll take a ten minute break.

7 (OFF THE RECORD)

8 CHAIRMAN HELTON:

9 Mr. Foster?

10 MR. FOSTER:

11 Yes, our next witness is Mr. Michael Reed.

12 (WITNESS DULY SWORN)

13

14 The witness, MICHAEL W. REED, having first been  
15 duly sworn, testified as follows:

16 DIRECT EXAMINATION

17 BY MR. FOSTER:

18 Q Would you state your name and business address for  
19 the record, please?

20 A Michael W. Reed, 318 East Main Street,  
21 Lexington, Kentucky.

22 Q Mr. Reed where are you employed and in what  
23 capacity?

24 A I'm employed by GT Network Services and my

1 capacity is General Manager of Customer  
2 Operations for the Commonwealth of Kentucky.

3 Q Mr. Reed, did you prefile testimony in this  
4 proceeding consisting of 11 typewritten  
5 pages?

6 A Yes, I did.

7 Q And do you have any changes, additions or  
8 corrections to that prefiled testimony?

9 A No, sir, I don't.

10 Q And where I to ask you the questions  
11 contained in your prefiled testimony this  
12 morning would your answers be the same?

13 A Yes, they would.

14 MR. FOSTER:

15 Madam Chair I would ask that Mr. Reed's  
16 prefiled testimony be given--entered  
17 into the record as if given orally from  
18 the stand.

19 CHAIRMAN HELTON:

20 So ordered.

21 MR. FOSTER:

22 Mr. Reed is available for cross-  
23 examination.

24

1 CHAIRMAN HELTON:

2 Mr. Atkinson, Mr. Hughes?

3 MR. HUGHES:

4 Yes.

5

6

CROSS EXAMINATION

7 BY MR. HUGHES:

8 Q Mr. Reed, my name is Jack Hughes, I'm counsel for  
9 Sprint this morning.

10 A Good morning.

11 Q Could you tell us when you assumed your  
12 current duties with General Tel of Kentucky?

13 A I joined GTE of Kentucky in March of 1999.

14 Q Where were you before that?

15 A Prior to that I was in Texas acting as the  
16 General Manager for the south, southeast and  
17 eastern portions of Texas.

18 Q So you have just been in Kentucky a short  
19 time?

20 A Yes, but I've been with GTE just shy of 27  
21 years.

22 Q All right. Were you involved in this merger  
23 proceeding prior to coming to Kentucky?

24 A No, sir, I wasn't.

1 Q Look on page three of your testimony, line  
2 four, you refer to significant expenditures  
3 in the `99 capital budget. Can you explain  
4 significant expenditures in terms of the `99  
5 budget versus prior years budget? Is it  
6 greater?

7 A Yes. There is actually two dynamics that  
8 have been occurring the last three years in  
9 GT Kentucky's capital program. First of  
10 which had to do with a management audit and  
11 the directives that pertained to that. And  
12 we made significant commitments in terms of  
13 outside plant cable upgrades, inner office  
14 facility upgrades, switch upgrades, remote  
15 upgrades, and those dollars, of course, were  
16 contained in the `97 and `98 and to some  
17 degree 1999 capital budget. That is pretty  
18 much behind us as evidenced by the level of  
19 service that we are providing, frankly, in  
20 all three of our districts in Kentucky. The  
21 other dynamic is that the major portion of  
22 our digital switch change out was completed  
23 in 1998. GT Kentucky is 100% digital at the  
24 classified basis and we are 95% digital at

1 the remote basis. And a good deal of those  
2 dollars ended in 1998, so that program is now  
3 behind us. So when you look at '96, '97, '98  
4 capital dollars, sir, they are distorted  
5 high, if you will, for those reasons.

6 Q Well, then, if the prior years were distorted  
7 high because of prior commitments, do you  
8 have a projected budget for the next couple  
9 of years?

10 A We have committed as part of this merger  
11 filing \$222 million if that is your question.

12 Q Well, no, my question is apart from the  
13 merger, do you have a projected budget for  
14 the next two or three years?

15 A I'm not--I don't know what the number is, no.  
16 It does exist, there is strategic planning  
17 that we do at a five year and a one year  
18 level on all of our operating units but I do  
19 not have that data with me.

20 Q Well, can you tell us in terms, just in  
21 general terms then, is the term significant  
22 expenditure for 1999 greater than what you  
23 expect the budget to be for the next couple  
24 of years?

1 A It would be approximately the same because  
2 the 222 quick math is about 74 million a year  
3 and that is approximately what we will spend  
4 in 1999.

5 Q Okay, let me clarify. Is the significant  
6 expenditure, compared to the projected budget  
7 without the--apart from the merger amount,  
8 comparable?

9 A I would say that with the exception of the  
10 CLASS commitment that Mr. Kissell talked  
11 about, that the numbers would be comparable,  
12 if that is what you are asking.

13 Q Okay. Just to clarify the 23.7 million that  
14 I believe you have indicated is the amount  
15 for the CLASS services that is included in  
16 the 222 million isn't it?

17 A Yes, sir.

18 Q Was any of that budgeted prior to the  
19 development of the 222 million merger budget,  
20 merger?

21 MR. FOSTER:

22 I want to object, just to make sure when  
23 he says "was any of that," is he  
24 referring to the 23?



1 MR. HUGHES:

2 Yes, I'm sorry.

3 Q Was any of or all of the 23.7 million that is  
4 related to the deployment of CLASS services  
5 was that budgeted independently of or prior  
6 to the development of the merger budget?

7 A I'll try to answer it this way to make sure  
8 that I get at the root of your question. The  
9 23.7 million dollars for CLASS services was  
10 not budgeted at all. It was not planned for  
11 the reasons that Mr. Kissell shared with you  
12 earlier in his earlier testimony.

13 Q All right, so that 23.3 is totally merger  
14 dependent?

15 A That's a part of our application, yes, sir.

16 Q So I take it if that without the merger then  
17 General has no plans or had no plans to  
18 provide any of those CLASS services?

19 A Well, again for the reasons that Mr. Kissell  
20 covered and that was that it was not  
21 economically viable in terms of an investment  
22 that we would make whether it was CLASS or  
23 any other investment.

24 Q Going to page four of your testimony, line

1 16, what is FlexGrow?

2 A It is a channel based T-1 provision  
3 application that basically gives customers  
4 routing capabilities using digital  
5 connectivity. There's various service  
6 packages, that I'm not as familiar as perhaps  
7 I should be, that we offer that is FlexGrow  
8 oriented.

9 Q How long has that technology been available?

10 A I honestly don't know, it has been rather  
11 recent, but I would speculate if I were to  
12 choose a date.

13 Q Okay. Go on to page five, line 11, where you  
14 talk about the service standards, do you see  
15 it, that reference?

16 A Yes, sir.

17 Q Apart from the anticipated merger, has  
18 General budgeted sufficient funds or any  
19 funds to maintain the current level of  
20 service standards?

21 A Absolutely. One, because it is our  
22 requirement by law as a provider of service  
23 in Kentucky. It is also a provision in the  
24 management audit and, as I mentioned earlier,

1 had a good deal to do with the significant  
2 capital dollars that we overlayed in '96--  
3 excuse me--'97 and 1998, but, yes, that does  
4 go to it. We are--I might mention at this  
5 point that as a result of the commitment that  
6 we have put in place already that we are  
7 exceeding every service quality category that  
8 has been requested of us by the Commission in  
9 all three districts, not just the east  
10 district, in 1999.

11 Q All right. So do I understand you then that  
12 the company has the budget available and the  
13 ability to maintain your current level of  
14 service independent of or regardless of  
15 whether the merger is completed?

16 A I would say that is a true statement.

17 Q Look at page six, line 11, and you refer to a  
18 term "operations management processes." Can  
19 you explain what those are?

20 A Let me read this just a moment, please. Yes.  
21 the Commission requested us to monitor, I  
22 believe it is eight separate service  
23 categories, troubled reports cleared in 24  
24 hours, troubled volume for 100 lines, regular

1 service orders complete in five days, et  
2 cetera, et cetera. That is the minimum  
3 criteria that we obviously are--at a minimum  
4 are going to shoot for, to meet or exceed.  
5 In addition to that I have, as any general  
6 manager does in GTE, management controls in  
7 place that tells me throughout the day, any  
8 given day, what the provision of service is  
9 being provided in east, west or central  
10 Kentucky. And I'll give you a for instance.  
11 As I was sitting listening to Mr. Kissell's  
12 testimony this morning I got my morning page  
13 and it told me how many repair reports I had  
14 pending in every zone in Kentucky, told me  
15 how many service orders I had pending in  
16 every zone in Kentucky, told me if I had any  
17 delayed order reports in every zone in  
18 Kentucky, told me my measurements, i.e.  
19 service delivery, that I accomplished in  
20 every zone in Kentucky yesterday. I see that  
21 update every two hours throughout the day.  
22 And so when I speak of management controls  
23 this is a routine process that our management  
24 team is on top of. The quality of service

1 being provided to the customers in Kentucky,  
2 not only every day but throughout the day.

3 Q Okay, further in that sentence you say those  
4 processes will be in place when the merger is  
5 consummated. Does that mean that they are already  
6 in place?

7 A Yes, sir.

8 Q It doesn't mean that they are dependent upon  
9 the consummation merger?

10 A That is correct.

11 Q Okay. Do those processes involve particular  
12 people within the company now? Are there  
13 particular people assigned, particular  
14 duties?

15 A In some cases. In some cases they are a by-  
16 product of a piece of computer equipment that  
17 spits out information for me. For example,  
18 as I have mentioned, the page I got a minute  
19 ago, that is a computer generated look. And  
20 as I look at a zone if I might just--if I  
21 could paraphrase a minute, if I look at the  
22 eastern district, that area of eastern  
23 district has eight zones and that is eight  
24 geographical areas. So I might have a zone

1 around Hazard, as an example, and the  
2 computer generation gives me a visual look  
3 every two hours of repair, service orders,  
4 cable outages, central office outages, et  
5 cetera, for the Hazard zone every two hours.  
6 So that comes mechanically. Some of the  
7 inputs into the machine obviously are--are  
8 people who are involved in that process. So  
9 it is a combination of both.

10 Q Okay. As far as the day to day operations of  
11 the company, have you determined as a result  
12 of the merger whether there will be any  
13 reduction in your management staff of your  
14 field--what I call field staff, your people  
15 that work out in your satellite offices?

16 A The best way I could characterize that is  
17 business as usual. The merger, as Mr.  
18 Kissell commented on, impacts at the  
19 corporate level or the parent level,  
20 redundancy that are staff in nature, i.e.,  
21 payroll systems, accounting systems, data  
22 processing systems. From the standpoint of  
23 tomorrow, the day before the merger, the day  
24 after the merger, I need the same number of

1 phone technicals, cable splicers, installers,  
2 toll operators, as I did the day before. And  
3 that will not change.

4 Q So when the application and exhibits and so  
5 forth refer to redundancies, you don't  
6 consider that to refer to GTE Kentucky  
7 operations?

8 A I expect for myself included as well as my  
9 entire team in Kentucky to be there the day  
10 after the merger as they are the day before,  
11 because quite frankly that business hasn't  
12 changed, our commitments haven't changed.

13 Q Okay, look further down on page six, line 16  
14 where you say nothing will change in terms of  
15 how we serve our customers. Do you see that?

16 A Yes, sir.

17 Q I believe in other parts of your testimony  
18 you say that there is going to be no  
19 reduction or no change in rates, no change in  
20 service and no new service offerings?

21 A Service officers I would take exception to  
22 for the reasons of CLASS services.

23 Q Class services, okay. Apart from the potential  
24 offering of the CLASS services, is there anything

1           that a GTE customer today will recognize post  
2           merger as being new or different than they now  
3           have?

4       A    I'll answer it in a general way and if I'm  
5           not specific enough please rebutt.  But  
6           technology changes in our business, as  
7           everyone in this room knows, literally every  
8           week.  And as a part of the capital program  
9           that any company has within GTE--any unit has  
10          within GTE, part of that goes towards monies  
11          that we probably are going to spend on some  
12          new service or product offering that hasn't  
13          been invented yet.  So, it is kind of a part  
14          of the normal business as usual process.  So  
15          those will continue with or without merger  
16          approval or with or without a merger ever  
17          occurring.  An example I would give you is  
18          the ADSL.  We are offering ADSL service now  
19          and eight exchanges and 18 remotes in the  
20          Lexington area, and this is high speed data  
21          access to the Internet service providers.  We  
22          are now looking at rolling that out beyond  
23          those exchanges in the year 2000 and beyond.  
24          So that would be a part of our plan, it would



1 be a part of our \$222 million. And while I  
2 don't have the specifics as to exactly where  
3 that will be yet, it is still in the plan  
4 development stage, that will be there. So I  
5 didn't want to leave you with any impression  
6 that there will not be more technology and  
7 services and products available because they  
8 will be offered, as they have in the past,  
9 when they become available.

10 Q Well, if that is true, that as new technology  
11 becomes available it is offered, how do you  
12 reconcile that with Mr. Kissell's discussion  
13 about the CLASS services which have been  
14 around for some time and the inability of the  
15 company to make those offering currently?

16 A I would qualify my previous comment by saying  
17 profitable, and if I could quote a statistic  
18 I happen to pull this out this morning on the  
19 way up and it spoke to CLASS, if I may.  
20 Relative to Kentucky we have a 95 remotes and  
21 eight base units that have not been made  
22 CLASS capable, so the 23 plus million that we  
23 are talking about is a whole lot of switching  
24 equipment across this state. The other

1 dynamic of this is that currently we have  
2 376,000 of our residential lines are CLASS  
3 capable, and we only have 401,000 residential  
4 lines in total. So the quick math tells me  
5 there is only 25,000 customers out there that  
6 did not have it, but it is 103 switches and  
7 an investment of \$24 million. Quick math in  
8 your head tells you that is not a good--that  
9 is probably not a decision or an economic  
10 investment you and I would make on a personal  
11 level and that is why we have chosen not to  
12 do this at this time because it is not  
13 profitable. And, frankly, it is a small  
14 percentage of the number of lines we have in  
15 Kentucky.

16 COMMISSIONER GILLIS:

17 Is this 25% of existing lines that don't  
18 have CLASS availability, is that what  
19 you are saying?

20 A No, 25,000 lines of the 400,000 lines  
21 residential do not have CLASS capability. So  
22 it is a number, but it is--

23 COMMISSIONER GILLIS:

24 About 6%?

1 A Yes, I'm sorry, if I said 25% I misquoted.

2 VICE CHAIRMAN HOLMES:

3 Where is that, those 25,000?

4 A Primarily in the rural areas and that is  
5 where you have 95 remotes. Remotes tend to  
6 be deployed in very rural areas because what  
7 it does it extends the digital connectivity  
8 out into areas where you can't afford to put  
9 plant. And that is why it is expensive to  
10 convert them. We are talking SS7 capability,  
11 we are talking remote upgrades, card  
12 replacements, it's a tremendous investment to  
13 do that and the revenue is not there even if  
14 we had 100% market penetration to make that a  
15 profitable venture in of itself.

16 Q Look at the top of page seven, there are  
17 three bullets that are highlighted where you  
18 indicate that you intend to maintain current  
19 service, meet or exceed service standards and  
20 maintain trouble response. Do you see those?

21 A Yes, sir.

22 Q Would those statements be true if there were  
23 no merger pending?

24 A Yes, I believe so.

1 Q Okay. Look at page--that same page seven,  
2 line eight, where you say that rates will  
3 not change.

4 A Uh-huh.

5 Q I believe that there is an estimated two  
6 billion dollar savings overall for the  
7 merger?

8 A Uh-huh.

9 Q Is none of that savings going to be reflected  
10 in lower rates in Kentucky?

11 A I'm probably not the best person to answer  
12 that particular question. I think Mr.  
13 Kissell, correct me if I'm wrong, did mention  
14 that there was a portion of those dollars  
15 allocatable, if I got the word right, to  
16 Kentucky in year three. I forget what the  
17 exact number is but that is really out of my  
18 level or area of expertise.

19 MR. FOSTER:

20 Mr. Blanchard can address that question.

21 MR. HUGHES:

22 All right.

23 Q So I take it your level of understanding of  
24 no change in rates is you have simply been

1 told or you understand that there will be no  
2 rate change in Kentucky?

3 A I can tell you post merger that the business  
4 that I'm responsible for and that is managing  
5 the customer in Kentucky for installation,  
6 repair, preventative maintenance, et cetera,  
7 will not change.

8 Q All right, I want to ask a couple more  
9 questions about this CLASS service. I think  
10 one question was referred to you by Mr.  
11 Kissell. I think the question was is any  
12 part of the commitment to extend the CLASS  
13 service not firm? And if Mr. Foster recalls  
14 the question differently I'll defer to him  
15 because I don't have a clear note, but I  
16 believe that was the question. Are you aware  
17 of that?

18 A I recall hearing it and if I recall the  
19 question it had to do with the plan of 25%  
20 per year for four years change, in essence.  
21 And I would agree with--my recollection of  
22 Mr. Kissell's comments and that would be the  
23 commitment in total would not change. The  
24 timing of the commitment could change for

1 things like unavailability of equipment or  
2 more availability of equipment and labor, as  
3 the case may be. We could find ourselves in  
4 a position to accelerate this as we get into  
5 it, block purchases of printed wire cards, et  
6 cetera. And again I'd point you back to  
7 this, this is over a 100 exchanges in  
8 Kentucky that we have to make conversions on.  
9 This is a major undertaking.

10 Q Okay, but that commitment is contingent upon  
11 the merger?

12 A It was not in our strategic plan without the  
13 merger, prior to the merger, that's correct.

14 Q Are you aware that there are a number of  
15 small independent primarily rural telephone  
16 companies in the state?

17 A Uh-huh.

18 Q Are you aware if any of them offer these CLASS  
19 services?

20 A Not personally but, again, I'm new in  
21 Kentucky so I would not be a good person to  
22 ask.

23 Q If--would it surprise you that some do offer  
24 some or all of these services?

1 A No.

2 Q Why would it--if I understood Mr. Kissell's  
3 response he indicated that it wasn't  
4 profitable for General to offer some of these  
5 services. What is it about General that  
6 makes these services unprofitable that would  
7 allow a smaller rural based company to  
8 provide these services?

9 A I can't speak for the other companies but I  
10 can say that the reason for GTE's--reason for  
11 the need for 23 to 24 million dollars is the  
12 remoteness of the serving area, the number of  
13 remotes and the number of base units that  
14 require conversion and SS7 connectivity, and  
15 none of that exists today in that  
16 infrastructure. So there is only one way to  
17 do it and that is you have got to make that  
18 infrastructure CLASS capable and that  
19 requires almost 24 million dollars. I can't  
20 speak for the other companies.

21 Q All right, on that same page seven, line 18,  
22 you refer to future capital spending  
23 commitment. What is included in that?

24 A I think if I recall Mr. Kissell's testimony

1 that to his knowledge, and my knowledge as  
2 well, that GTE has not and has not been  
3 obligated to make a capital commitment for  
4 even the subsequent year, much less three  
5 years in a row and that is, in effect, what  
6 we are offering as a part of the merger  
7 discussion, that we are willing to commit to  
8 \$222 million of capital to continue the  
9 quality of service that we are providing  
10 after the merger as we are prior to the  
11 merger. And to my knowledge we have never  
12 had to do that before.

13 Q Does that mean you have no future capital  
14 spending commitments in the absence of the  
15 merger?

16 A Oh, no, absolutely not.

17 Q Okay. What about future expansion of local  
18 calling areas, is there a time table for  
19 that?

20 A My recollection is that from six to nine months  
21 after merger consummation and approval that we  
22 would begin that process. I believe there are  
23 roughly 23 exchanges that do not have some form of  
24 local calling plan option available to them today



1 in Kentucky, if I recall my data, and we would  
2 begin looking at that on exchange by exchange  
3 basis at that time. I might mention also that we  
4 are considering a couple of different options that  
5 will be attractive, I believe, to Kentucky  
6 customers. One is what I call bulk time or a  
7 block of minutes available at a predetermined rate  
8 is one pricing option that may be attractive to  
9 our customers in lieu of the way they pay for it  
10 today. Also, in some cases we may be able to  
11 provide intraLATA wide toll free or local calling  
12 as well. And, again, that gets down to the  
13 economics of those exchanges and whether the price  
14 points bear themselves out as being profit able  
15 and doable. So that is a couple of things that we  
16 are looking at and that process would begin very  
17 quickly after the completion of the merger.

18 Q Okay. Let's skip down to the end  
19 implementation of best practices. Have you,  
20 as--or do you as part of your review of the  
21 operations of the Company look from time to  
22 time to see if there are other practices  
23 available that might benefit the Company?

24 A Absolutely.

1 Q So that's an ongoing process?

2 A Yes, sir.

3 Q Do you from time to time adopt new policies?

4 A Yes, sir.

5 Q So there is nothing now that prevents you

6 from implementing policies if you--

7 A Yes, sir, I'm sorry to interrupt you. Most of the

8 benchmarking that we do today is internal. Any

9 competitor--Bell Atlantic is a competitor to us in

10 some ways, prior to a merger, is somewhat

11 resistant to share all of their greatest stories

12 with anybody in the market place, for obvious

13 reasons. So some of the better ones you may not

14 be able to get without an alliance. I'll give you

15 a for instance, when we went through the GTE/  
16 Contel conversion we were amazed as a Company how

17 many things that they were doing that, frankly, we

18 hadn't even thought of. And if I may I'll give

19 you a for instance. In Contel's case they had

20 automated and mechanized their repair answer

21 center process to the point where 15 to 20% of all

22 repair calls coming into a large center could be

23 diagnosed, could be tested and if the problem

24 happened to be a switch base fault in a digital

1 office they literally could go in on line and make  
2 changes to that switch to make the correction.  
3 What does that mean to the consumer, well it means  
4 a couple of things, one, is it is done almost  
5 instantaneously, and, number two, you don't have  
6 to wait for a technician to show up or not show  
7 up, as the case may be, at your home. All of  
8 those things that make us crazy is working with  
9 service providers. So there is a best practice  
10 that we didn't know about until the merger. We  
11 have taken that now and we have now deployed that  
12 GTE wide as a result of our affiliation or merger  
13 with GTE and Contel. And I use that as an example  
14 of the type of thing that we will be able to find  
15 when we work with Bell Atlantic.

16 Q Okay, when you talk about best practices and  
17 change in procedures, like you just  
18 discussed, are we talking in terms of  
19 significant financial savings or are we  
20 talking about incremental savings above what  
21 the current practice is? Have you tried to  
22 quantify that?

23 A I would say--again it depends on the best  
24 practice. In the example that I just gave

1           you, not only did it have savings because I'm  
2           rolling less--rolling fewer trucks, I also  
3           had subsitive quality implications for our  
4           customers and that is that we had 15% to 20%  
5           of trouble tickets that were in a digital  
6           office that we could clear at the center  
7           rather than having to roll a truck anywhere.  
8           So to the consumer that is a win-win. Again  
9           that is an example of frankly hundreds of  
10          things that we mutually found about one  
11          another than we have learned as a result of  
12          that merger.

13        Q    All right, on page eight, at the very bottom,  
14            the last sentence, you refer to examples of  
15            CLASS offerings which will be available if  
16            the merger is approved. Does that mean that  
17            these will not be available if the merger is  
18            not approved?

19                   MR. FOSTER:

20                           I'm going to object, he has answered  
21                           that question at least three or four  
22                           times.

23                   MR. HUGHES:

24                           Well, I realize he has but he he talking

1 here about different items, I just want  
2 to make sure that they are the same ones  
3 that we have discussed before. But if  
4 his previous answers cover them that's  
5 fine.

6 CHAIRMAN HELTON:

7 I think it covered it.

8 Q Okay. Look at page nine, line seven. You refer  
9 to a change in economic conditions, what--do you  
10 have in mind any particular types of conditions?

11 A I believe Mr. Kissell mentioned a couple and  
12 they were in my mind as well, that had to do  
13 with substantial competitive loss of access  
14 lines certainly would have an impact on the  
15 level of capital that we would need to deploy  
16 to provide telephone service, a change in the  
17 economic that would have a significant  
18 increase or decrease in access line growth as  
19 a result of building new homes. An example  
20 that comes to mind, frankly it is currently  
21 in their 1999 plan is, as you know, Governor  
22 Patton just recently announced, when  
23 President Clinton was here, a major new  
24 initiative in eastern Kentucky. And two of

1 those new centers that are being contemplated  
2 in eastern Kentucky, one of those is in our  
3 Hazard operating area, it is the Sykes  
4 Center. Now, the Sykes Center, as I  
5 understand it, is a calling center of highly  
6 technically trained people who will be able  
7 to diagnose software types of problems on  
8 line for companies like Microsoft. That  
9 particular center, the fiber connectivity  
10 that they are requesting and the redundancy  
11 and diversity of routing that they have  
12 requested is an additional one million  
13 dollars, roughly, to GTE for 1999. That is a  
14 change in economic circumstances, that was  
15 not a part of our plan. I didn't even know  
16 about it until I heard it on the news that  
17 night, but I can guarantee that that  
18 additional one million dollars has been  
19 found, will be deployed, and that is an  
20 example of where we would say we are going to  
21 spend more than what we have committed to  
22 because it is the right thing to do and it is  
23 our obligation as the server in that  
24 franchise area.

1 Q Do I understand then that the economic  
2 conditions that you are talking about are  
3 conditions within GTE's market, they are not  
4 conditions world wide?

5 A Absolutely. And let me if I may amplify one  
6 other way. If we felt that there was a need  
7 to change the capital commitment, 222  
8 million, we would not only expect that the  
9 Commission would ask us, we would come in and  
10 present it. This is what we think we need to  
11 do and this is why we think we need to do it  
12 and seek their approval before we would even  
13 make that change. Because it is in our best  
14 interest to continue that level of capital  
15 commitment if the growth and the economy is  
16 such that it is to continue to provide the  
17 service that we do today.

18 Q All right, on the top of page ten, you talk  
19 about the roll out of enhanced local calling  
20 plans, is that dependent upon the merger?

21 A The three that are mentioned here I believe  
22 are 1999 and are not contingent upon the  
23 merger. The other, I think 23 exchanges that  
24 are not offered local calling plans, I

1 believe some of those probably were a part of  
2 our long term plan, but without having the  
3 data in front of me I'm fairly confident that  
4 all of them weren't. And so what we are  
5 bringing to the table is extending that  
6 capability to all of them as a part of our  
7 merger application.

8 Q Okay. Look on page 11, line seven, you refer  
9 to efficiencies that can be realized, have  
10 you identified any?

11 A Again the only ones that I could make  
12 reference to is what we foresee at an  
13 operational level that we will get out of  
14 our--the biggest impact for the oper--the  
15 running of the operations piece of our  
16 business, in my judgement, is what we can  
17 take away in terms of best practices. And I  
18 cite the example of one of a 100 that we had  
19 with GT/Contel conversion. That is the level  
20 of impact that it will have on my serving the  
21 customer. The rest of the impact are  
22 primarily things a parent level where we can  
23 save, we have synergies of not having to  
24 have two payroll systems and two data



1 processing systems and so on and so forth.  
2 So, over time, those dollars can be saved,  
3 flowed through, if you will, to the states  
4 that GTE and Bell Atlantic jointly would  
5 serve. And in some way or another even in  
6 terms of additional services, reduce costs or  
7 rates, somehow that would be reflected in the  
8 flow through of that transaction.

9 Q Okay, on page 11, line 17, you refer to the  
10 lack of any adverse changes as a result of  
11 the merger. How are you defining adverse?

12 A In my vernacular it is business as usual. My  
13 commitment to the customer, my commitment to  
14 the Kentucky Public Service Commission and  
15 the rules that we are governed by will not  
16 change the day after the merger any more than  
17 it did the day before the merger.

18 Q So are you defining that in terms of rates  
19 and service will not be affected?

20 A I would include that in there as well, yes.  
21 Certainly service and rates become a function  
22 of all different variable, as you well know,  
23 but the service aspect will not change.

24 Q If those things don't change, after the

1 merger, what can you tell your customers that  
2 GTE offers in a competitive basis that, after  
3 the merger, that it doesn't offer now?

4 A Again I would refer to my recollection of Mr.  
5 Kissell's testimony that had to do with bulk  
6 purchasing power, the ability to bring new  
7 technologies through at a quicker pace,  
8 driving down the unit cost because of the  
9 larger footprint on a national basis, all of  
10 those will contribute over time to lower  
11 costs to not only Kentucky but to every state  
12 that we serve. And, again, those lower costs  
13 can be translated in any number of ways,  
14 additional services, lower rates, lower cost  
15 position for the company that is impacted.  
16 So that is, I think, how I would answer your  
17 question and I believe it is how Mr. Kissell  
18 answered it.

19 MR. HUGHES:

20 Okay. That's all I have.

21 CHAIRMAN HELTON:

22 Ms. Cheuvront?

23 MS. CHEUVRONT:

24 No questions.

1 CHAIRMAN HELTON:

2 I have one question before we go to Mr. Wright.  
3 Mr. Reed you were not here for the previous  
4 hearing, would you please restate for the record  
5 what you understand the two companies are  
6 committing the new merged company to as far as  
7 rates in the state of Kentucky?

8 A The merger will not have any impact on our rate  
9 structure. Obviously that is approved by this  
10 Commission, and we do not anticipate any changes  
11 that would require us to do that.

12 CHAIRMAN HELTON:

13 Are you characterizing that as a rate freeze  
14 rather than a rate cap?

15 A I'm not the right person probably to answer  
16 that question, ma'am, I'm sorry, I don't mean  
17 to dodge your question but that is not my  
18 area of responsibility.

19 CHAIRMAN HELTON:

20 Mr. Wright.

21

22 CROSS EXAMINATION

23 BY MR. WRIGHT:

24 Q Mr. Reed turn back to page four of your testimony

1           please. Providing an answer to the question  
2           beginning at line nine, GTE is spending 6.5  
3           million to install, and so forth, including 16 in  
4           the east district, five in the west, 87 miles of  
5           fiber optic cable at a cost of 1.7 million, half  
6           of which is to be located--define the east  
7           district?

8       A    Certainly. If I may if I could take just a  
9           moment, we just rededicated our commitment to the  
10          east and west rural areas. I just named an area  
11          manager to be responsible for both east and west  
12          that was not in place before. So, I have an  
13          executive that is fully focused and fully  
14          accountable for that, in addition to myself. I  
15          just named Mr. Kevin Cogerly to the eastern area,  
16          and the eastern area, if I can name the larger  
17          towns, is Hazard, Ashland, Flemingsburg, Morehead,  
18          London, and those are probably the major  
19          communities. And that's approximately, don't hold  
20          me to this, but 200,000 access lines in that  
21          neighborhood.

22                       MR. WRIGHT:

23                               Thank you, that's all I have.  
24

1 CHAIRMAN HELTON:

2 Mr. Gillis?

3 COMMISSIONER GILLIS:

4 Just a couple of questions. Mr. Reed, you were  
5 asked a while ago about the level of employees in  
6 the district before and after and you said there  
7 would be no change. Is that in your authority to  
8 make that happen?

9 A You mean prior to and after the merger, I'm  
10 not sure--

11 COMMISSIONER GILLIS:

12 Prior to.

13 A I'm not sure what time line you are asking about,  
14 sir.

15 COMMISSIONER GILLIS:

16 Prior to and after the merger, the complete answer  
17 there, yes.

18 A The--immediately after the merger there will  
19 be no impact. It would be imprudent of me to  
20 say that I don't need more or less employees  
21 a year after that because circumstances  
22 change. Technology may drive down the need  
23 for labor.

24

1 COMMISSIONER GILLIS:

2 Maybe I mispoke. My question was is that in your  
3 authority to make that happen?

4 A In terms of employee counts?

5 COMMISSIONER GILLIS:

6 In terms of your answer?

7 A Not in my absolute authority, but I am a  
8 major contributor towards that decision.

9 COMMISSIONER GILLIS:

10 Really my question was did someone at Bell  
11 Atlantic give you that authority to make that  
12 commitment?

13 A We did not discuss that.

14 COMMISSIONER GILLIS:

15 So that is your answer as opposed to anyone up the  
16 line?

17 A Yes. I can tell you of a general nature the  
18 senior management has told us that there will  
19 be an impact on the operating units in terms  
20 of provision of customer service, which is  
21 what I do for a living, post merger.

22 COMMISSIONER GILLIS:

23 And who was that that told you that?

24 A That's our senior executives, Mr. Lee and Mr.

1           Seidenberg both mentioned that, and several  
2           others.

3           COMMISSIONER GILLIS:

4           All right. You mentioned that 6%, and I think you  
5           talked about 25,000 lines in remote areas to be  
6           the ones that we are talking about as far as the  
7           CLASS improvements would be necessary. Are we  
8           talking about 24 million, is that strictly  
9           software?

10          A    No. It is a combination of things and it  
11           depends on the switch type that is deployed.  
12           In some cases it is right to use fees, in  
13           some cases it is actually physically changing  
14           out printed wire cards in both the base and  
15           the remote units. In some offices it is  
16           provision of signaling system 7 connectivity  
17           from the host to the remote, and there are  
18           other things but those are probably--and, of  
19           course labor, but those are the big three or  
20           four.

21          COMMISSIONER GILLIS:

22           Okay, and I guess the real question is the  
23           hardware in these remote facilities, have you done  
24           all of the updating necessary to be Y2K ready?

1 A Yes. We are--I feel confident that GT's plan  
2 is securely in place, in fact, we just went  
3 through a national test on the GPS  
4 realignment last week and passed that very  
5 comfortably and made my week go a little  
6 better, but yes. The manufacturers, by the  
7 way, are working very well with us, as they  
8 have to on a national basis. So I think we  
9 are okay.

10 CHAIRMAN HELTON:

11 Mr. Holmes?

12 VICE CHAIRMAN HOLMES:

13 Nothing.

14 CHAIRMAN HELTON:

15 When you talk about the level of employees is  
16 going to stay the same and have that commitment  
17 from the top CEOs, are you going to go into  
18 Louisville with the same employees or are you  
19 going to bring in new marketing people?

20 A Let me try to answer it this way. Without  
21 knowing exactly the plan and the rate of the  
22 plan, subject to the Commission's approval,  
23 there may be some cases where it may be  
24 advantageous for us to use areas that are



1 contingent to Louisville, Elizabethtown would  
2 be a good example, where I have the skill and  
3 they are not otherwise being used for the  
4 franchise customer in a particular job, then  
5 it may be advantageous to use them. But I  
6 think as you begin to start up that business  
7 my experience has been with other out of  
8 franchise areas that you need to start with a  
9 good sales staff. You need to probably start  
10 with some good highly technical people in  
11 terms of data data, and not only from an  
12 installation perspective but also from,  
13 frankly, a resource that the customer can  
14 talk to us perspective, if you will. And I  
15 think, over time, if that grows enough, there  
16 may be a need for a whole dedicated resource  
17 in Louisville and the interim, again subject  
18 to this Commission's approval, we may want to  
19 try to look at doing a little bit of each in  
20 terms of serving some of it from a franchise  
21 area and some of it from not. If I may,  
22 ma'am, another example we are doing right  
23 now, we just won the State of Kentucky school  
24 system bid which provides PBX and key

1 systems, among other things, to every county  
2 in Kentucky. A good deal of that we are  
3 doing from our franchise locations as that  
4 resource is available serving a non-  
5 franchised area. In other cases we are  
6 actually subcontracting the work and  
7 supervising the work with our management  
8 team. So, again, it is kind of a combination  
9 of both and the volume and the speed to which  
10 we have success probably will dictate which  
11 way we go.

12 MR. FOSTER:

13 We have nothing on redirect.

14 CHAIRMAN HELTON:

15 Mr. Atkinson--Mr. Hughes, I'm sorry?

16 MR. HUGHES:

17 Nothing.

18 MR. FOSTER:

19 Can the witness be excused? Our next witness is  
20 Mr. Dennis Bone, and Mr. Walker will present Mr.  
21 Bone.

22 (WITNESS DULY SWORN)

23 The witness, DENNIS M. BONE, having first been  
24 duly sworn, testified as follows:

1 DIRECT EXAMINATION

2 BY MR. WALKER:

3 Q Mr. Bone, will you please state your full name,  
4 your business address and your title for the  
5 record?

6 A My name is Dennis M. Bone, B-o-n-e, my  
7 business address is 1500 MacCorkle Avenue,  
8 Charleston, West Virginia 25314, and my title  
9 is President and CEO of Bell Atlantic West  
10 Virginia.

11 Q Mr. Bone do you have in front of you what has  
12 been titled the Direct Testimony of Dennis M.  
13 Bone on behalf of Bell Atlantic Corporation?

14 A Yes.

15 Q Was this testimony prepared by you or under  
16 your direct supervision?

17 A Yes, it was.

18 Q Do you have any corrections or additions to  
19 make to the direct testimony?

20 A No, I do not.

21 Q If I were to ask you the same questions which  
22 are contained in the direct testimony today  
23 would your answers be the same?

24 A Yes, they would.

1 MR. WALKER:

2 Your Honor, I'd ask that the direct be  
3 entered into the record as if orally  
4 stated from the stand by Mr. Bone.

5 CHAIRMAN HELTON:

6 So ordered.

7 Q Mr. Bone do you also have in front of you  
8 what has been titled the Rebuttal Testimony  
9 of Dennis M. Bone on behalf on Bell Atlantic  
10 Corporation?

11 A Yes, I do.

12 Q Was this testimony also prepared by you or  
13 under your direct supervision?

14 A Yes, it was.

15 Q Do you have any corrections or additions to  
16 make to the testimony?

17 A No, I do not.

18 Q If I were to ask you the questions contained  
19 in rebuttal testimony today, would your  
20 answers be the same?

21 A Yes, they would.

22 MR. WALKER:

23 I would also ask that the rebuttal  
24 testimony of Dennis M. Bone be--excuse

1 me--Your Honor, I would ask that the  
2 rebuttal testimony of Mr. Bone be  
3 entered into the record as if orally  
4 stated from the stand.

5 CHAIRMAN HELTON:

6 So ordered.

7 MR. WALKER:

8 Mr. Bone is available for cross-  
9 examination.

10 CHAIRMAN HELTON:

11 Mr. Atkinson?

12

13 CROSS EXAMINATION

14 BY MR. ATKINSON:

15 Q Good morning, it is still morning.

16 A Good morning, it's a pleasure to be here.

17 Q I'd like to start off with the same  
18 preliminary questions I asked Mr. Kissell, in  
19 what states besides Kentucky, if any, have  
20 you testified or entered prefiled testimony  
21 regarding the proposed merger?

22 A Kentucky is the only one.

23 Q I'd like to direct you to pages eight and  
24 nine of your direct testimony where you

1 discuss two Bell Atlantic calling plans that  
2 appeared in West Virginia or that are offered  
3 in West Virginia. And I'd like to ask you, I  
4 guess first of all, you were here for the  
5 prior testimony of Mr. Kissell this morning  
6 in this proceeding?

7 A Yes, I was.

8 Q And you are aware or do you recall that one of the  
9 Commission's informational requests in the April  
10 '99 Order in the prior merger docket was for the  
11 joint applicants to explain what packages of  
12 services would be available from the merged entity  
13 after the merger; are you aware of that?

14 A Yes, I am.

15 Q Okay. Let me ask you about the two package  
16 plans that you mentioned that Bell Atlantic  
17 provides in West Virginia, Sound Deal and  
18 Local Package. Does the merged entity intend  
19 to offer these same or similar packages in  
20 Kentucky after the merger?

21 A Well, first of all, I probably am not  
22 qualified since I am the CEO of Bell Atlantic  
23 West Virginia, but I think as Mr. Kissell  
24 testified that in looking at some of the

1 preliminary best practices, the toll and how  
2 we market toll and local services is one of  
3 those areas, and I offer this up in my  
4 testimony basically as instructive of how we  
5 do it in West Virginia and how some of the  
6 success has been because some of these plans  
7 have been very popular and it has helped,  
8 quite frankly, with us in the intraLATA toll  
9 competition. The Sound Deal, for example,  
10 gives you a dial tone line, unlimited local  
11 usage, it gives you unlimited intraLATA  
12 calling, for example, within the southern  
13 West Virginia LATA, Charleston to Huntington,  
14 to all the cities of southern West Virginia,  
15 and it also gives customers up to nine  
16 features like Caller ID and custom calling  
17 and three-way calling and all of that is  
18 bundled in a price of \$59.95 a month. So--  
19 and until we had started rolling out plans  
20 like this we were really taking a beating in  
21 intraLATA toll market. We have another one  
22 called Big Deal, which is that without the  
23 intraLATA toll, where for \$17.00 a month you  
24 get nine vertical features together. And

1 then the Local Package deal there is really  
2 geared to new customers, and with that one  
3 you get your local residence line and  
4 unlimited usage along with unlimited  
5 directory assistance calls, along with the  
6 waiver of all the installation charges and  
7 you can get up to I believe it is four  
8 monthly--four of the frequently calling--or  
9 custom calling services and put that packages  
10 together, and I think that is for \$34.95 a  
11 month.

12 Q Okay, so what I hear you saying is that Sound  
13 Deal and Local Package are illustrations of  
14 what packages could be offered in Kentucky  
15 after the merger but not necessarily  
16 indicative of what will be offered in the way  
17 of packages in Kentucky; is that correct?

18 A That's correct, and specifically instructive  
19 for that part of the order for what, you  
20 know, we are doing and the kinds of packages  
21 that could be brought to Kentucky. But I am  
22 not the Kentucky operations witness so I'm  
23 just showing what we are doing in West  
24 Virginia.



1 Q Right and, therefore, you don't have any  
2 specific knowledge of what will be offered in  
3 Kentucky?

4 A That's correct.

5 Q Let me direct you to page 11 of your prefiled  
6 direct testimony, beginning on line 18, you  
7 are discussing Bell Atlantic's deployment of  
8 xDSL services to residential customers.

9 A Yes.

10 Q Are you in a position to discuss the merged  
11 entity's plan to deploy xDSL services to  
12 residential customers in Kentucky?

13 A I think Mr. Kissell or Mr. Reed have  
14 already--I think it is Mr. Reed has already  
15 testified to that, that it is in--I forget  
16 the number he said, in certain exchanges or  
17 switches around the Lexington area and would  
18 be extending it further. And, quite frankly,  
19 he is the witness who should testify on the  
20 Kentucky roll out of ADSL.

21 Q While you are in your direct testimony, Mr.  
22 Bone, let me refer you to page 14. You are  
23 one of the only, if not the only Bell  
24 Atlantic witness testifying for us today, let

1 me ask you a couple of the questions I asked  
2 Mr. Kissell from Bell Atlantic perspective.  
3 On page 14 of your direct you discuss the  
4 best practices of after the merger that will  
5 be implemented. To your knowledge is Bell  
6 Atlantic currently aware of better management  
7 practices that it has not adopted?

8 A Again, I thought Mr. Kissell's answer there  
9 was instructive. We are certainly aware of  
10 better results that you might look at but  
11 because systems are completely different, the  
12 way the computers are tied together, it is  
13 not--in the way processes work, and it is  
14 very complicated, as you know, in our  
15 industry, you know, to deliver these services  
16 and meet customers needs. So in many cases  
17 you may see better results but you are not--  
18 you do not know what is going on underneath  
19 to get those results. So in terms of best  
20 processes we are always benchmarking. We use  
21 the Baldrige criteria within our company  
22 which benchmarks other companies. But it was  
23 real eye opening when we sat down after the  
24 NYNEX merger--very recently, less than two

1 years ago, or just about two years ago--and  
2 then see what we were doing different and  
3 when we put those operations together how we  
4 could improve. And we would expect the same  
5 results with GTE.

6 Q If I could get you--if I could restate the  
7 question, Mr. Bone, and get you to respond  
8 initially yes or no and then if you could  
9 explain your response that would be helpful.  
10 But to your knowledge is Bell Atlantic  
11 currently aware of better management  
12 practices that it has not adopted?

13 A I said no to that, better results, but not  
14 practices.

15 Q Thank you. If that being the case, let me  
16 ask you the same question that I asked Mr.  
17 Kissell, how can the merger improve  
18 management practices if Bell Atlantic has  
19 already adopted the best practices of which  
20 it is aware?

21 A Because we don't know everything that is  
22 going on. I mean just what I heard about Mr.  
23 Reed talking about the way he is updated  
24 every two hours, we don't do that. I mean I

1 don't know if that is the best practice for  
2 us but it is certainly one that I wrote down  
3 that we might want to look at. We are doing  
4 other things, we are pioneering right now in  
5 West--and I'm familiar with this, it is  
6 across the Bell Atlantic footprint but  
7 because the work center is in West Virginia  
8 I'm very familiar with it, a new way to  
9 contact and set up service for new customer  
10 accounts. Instead of have--the calls credit  
11 screening and bad debt in that area, for new  
12 accounts for us bad debt is--and it is across  
13 the industry--is a bigger issue. Across your  
14 whole basic of customers net bad debt is  
15 under 2%, but for news accounts it is much  
16 higher, factors are 10 times higher. But we  
17 have been working on that process. So, now,  
18 instead of calling into our residence service  
19 center, we have created new centers that do  
20 nothing but credit screening and verification  
21 that have all sorts of real sophisticated  
22 tools for credit screening. And they go to  
23 that and then a warm transfer then to the  
24 sales office. But we have been able to

1           drastically reduce bad debt on new accounts.  
2           Now, again, I don't know, I don't think GTE  
3           is doing this, this is something that we have  
4           been developing internally, but it is the  
5           kind of thing that you can now look at and  
6           decide if you want to do this across the  
7           whole system.

8       Q     And I believe you stated that you were here  
9           for Mr. Kissell's testimony earlier this  
10          morning?

11       A     Yes.

12       Q     Were you aware of the specific best practice that  
13           apparently has been identified, the Bell Atlantic,  
14           was it intraLATA marketing practices, were you  
15           aware that that has been specifically identified  
16           as a best practice that will in all likelihood be  
17           implemented after the merger?

18       A     Not until I was preparing for this hearing,  
19           no, because I'm not on the merger integration  
20           team, you know, that is comparing the  
21           operations from company to company.

22                   MR. ATKINSON:

23                   I have no further questions, thank you,  
24                   Mr. Bone.

1 A Thank you.

2 CHAIRMAN HELTON:

3 Ms. Chevront has no questions. Mr. Willis?  
4

5 CROSS EXAMINATION

6 BY MR. WILLIS:

7 Q Mr. Bone, could you take me through the chain of  
8 command from your position in West Virginia to the  
9 top?

10 A I report to Mr. Toby Webb who is a Senior  
11 Vice President and head of External Affairs  
12 for Bell Atlantic Corporation. He is also  
13 one of the six inside directors on our Board  
14 of Directors, the Corporate Board of  
15 Directors, and Mr. Webb reports to Mr.  
16 Seidenberg, our Chairman.

17 Q Okay. Now, you indicated that you are not on  
18 the merger integration team, are you on any  
19 team related to this merger?

20 A I'm on the Kentucky Merger Approval Team.

21 Q How long have you been on that?

22 A Since I was drafted about three or four  
23 months ago after the Order came out in  
24 April.

1 Q So that's the only thing you are on as far as  
2 any direct knowledge which you have relative  
3 to this merger?

4 A Oh, no, sir, that is a different question.  
5 We have monthly senior management meetings  
6 and the merger consumes a good two or three  
7 hours of that daily meeting and merger  
8 updates that come in and out daily, and  
9 conference calls, quite frankly, that are  
10 very frequent.

11 Q And you are on the--are you on the Board in  
12 West Virginia?

13 A I'm the Chairman of the Board.

14 Q Okay, who else is on the board, how many  
15 others, I'm sorry, I don't care--

16 A It's a small board, but we have to have a  
17 board because of the legal entity and the way  
18 we are organized. There are two other  
19 internal Bell Atlantic executives on that  
20 Board.

21 Q So the Board consists of three, two from Bell  
22 Atlantic and then you?

23 A Yes.

24 Q And you work solely in West Virginia?

1 A My scope of control is the State of West  
2 Virginia and Bell Atlantic's operations in  
3 it.

4 Q And you indicate on page two at line nine  
5 that your testimony is just for operations  
6 only, to provide an overview of the  
7 operations and to respond to other questions?

8 A Yes. I wanted to be helpful to this  
9 Commission, again from the perspective of a  
10 small state, rural state, close to Kentucky,  
11 that just went through the Bell Atlantic/  
12 NYNEX merger and understanding, you know,  
13 there could be a lot of questions from a Bell  
14 Atlantic perspective so--for the operations  
15 and for other questions you may have.

16 Q Okay. Now, you indicate down toward the  
17 bottom of page two the merger will better  
18 allow you to meet customer needs, was this  
19 true with the West Virginia merger?

20 A With the West Virginia merger?

21 Q Yes.

22 MR. WALKER:

23 Excuse me, the Bell Atlantic/NYNEX  
24 merger you mean?



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MR. WILLIS:

Well, the merger in West Virginia.

MR. WALKER:

Or this merger as it applies to West Virginia?

MR. WILLIS:

No, I'm talking about the merger in West Virginia.

MR. WALKER:

The Bell Atlantic/NYNEX or the Bell Atlantic/GTE? The Bell Atlantic/NYNEX, okay.

MR. WILLIS:

Yes. Was there a Bell Atlantic/GTE merger in West Virginia?

MR. WALKER:

There was an approval of this merger in West Virginia, so--

MR. WILLIS:

Okay.

MR. WALKER:

But Bell Atlantic NYNEX, thank you for the clarification.

A I'm sorry I lost the focus of your question.

1 Q You indicate here on page two that the merger  
2 makes you more efficient expanding scales,  
3 expertise and resources?

4 A Uh-huh.

5 Q Was this true with Bell Atlantic/NYNEX in  
6 West Virginia?

7 A Yes, it was, maybe not directly but when we  
8 put the two companies together and when we  
9 took the best of the best at the corporate  
10 and the staff and the operations level, for  
11 example, our billing systems, Express Track,  
12 a new billing system that is rolling out in  
13 West Virginia, that was probably benefited  
14 and some how from the merger and best  
15 practices in putting expertise together. So  
16 it is hard for me to say because we merged at  
17 the corporate level it had some immediate and  
18 direct impact in West Virginia, but because  
19 we are part of a stronger, bigger, more  
20 resourceful company, over time, it is  
21 providing benefits, yes.

22 Q Have you seen savings in West Virginia?

23 A Clearly on procurement, I know for example, I  
24 forget the size but we had a very large order

1 with Lucent, about six or eight months ago,  
2 in the billion of dollar ranges for buying  
3 switches. I am absolutely certain that we  
4 got a better deal per switch module and for  
5 other network equipment that came under that  
6 very large procurement because we were to  
7 negotiate as a double the size company with  
8 Lucent. So, certainly things like that I  
9 think would directly come to West Virginia  
10 when we implement that technology in their  
11 state.

12 Q Any other savings as a result of the merger  
13 with Bell Atlantic?

14 A Well, the other thing is we clearly have less  
15 overhead at the corporate level because when  
16 we put the overhead and have that over top of  
17 our functional operating units, there is  
18 going to be less overhead to allocate. For  
19 example, one chief financial officer's salary  
20 instead of two, so there are certainly  
21 overhead efficiencies as well.

22 Q How much savings have you seen?

23 A I don't have that data, we haven't tracked  
24 that data specifically in West Virginia?

1 Q Any reason why not?

2 A Well, in order to get the answer to your  
3 question what we would have done would have  
4 had to have benchmarked and projected  
5 expenses probably from the unmerged company  
6 and then compare the expenses from the merged  
7 company. And because our environment is so  
8 dynamic, you know, that would be extremely  
9 difficult things to do. I can tell you that  
10 my overall expense growth for Bell Atlantic  
11 West Virginia is at about the 1% growth rate,  
12 which I'm very happy with, because my  
13 revenues are growing at more than that, which  
14 means that I'm a more profitable stronger  
15 company.

16 Q If there is a two billion dollar savings as a  
17 result of all the mergers with GTE, can you  
18 identify any savings with Bell Atlantic/GTE merger  
19 in West Virginia?

20 A Yes. Again at that procurement level, at the  
21 overhead corporate efficiency level, those  
22 same savings proportionately will probably  
23 flow to West Virginia just like they will to  
24 Kentucky or to any other state within our

1 operations.

2 Q But you can't give us an amount?

3 A I haven't looked at that information. I know  
4 Mr. Shuell and Mr.--I think Mr. Shuell is our  
5 witness who has looked at that for the merger  
6 and is going to testify later.

7 Q So you don't know if there--what savings  
8 amount there has been?

9 A With the GTE?

10 Q Yes, or NYNEX?

11 A No, it hasn't been consummated, I mean those  
12 are mergers that will take--

13 Q I'm sorry, is there any estimated for West  
14 Virginia?

15 A No, our Commission didn't request that  
16 calculation, so I would assume that it would  
17 happen the same way that Mr. Shore would  
18 allocate to Kentucky.

19 Q Even though the Commission didn't request the  
20 calculation was there any internal  
21 calculation done of which you are aware?

22 A No, we did not need to provide that data and  
23 we didn't calculate it.

24 Q On page two you talk about the merger

1 allowing you to better meet customer needs,  
2 what customer needs are you referring to?  
3 A We are talking about customer needs in  
4 today's telecommunications market place where  
5 basically customers are asking for that full  
6 bundle of service, local, long distance,  
7 cellular, cable TV, all from one company.  
8 That is where our market is going, that is  
9 where all the products and services are  
10 going, and right now Bell Atlantic on its own  
11 cannot provide that full bundle of services  
12 and combining with GTE helps us immensely in  
13 that area.

14 Q Has this been true in West Virginia, in any  
15 way?

16 A Are you talking about relative to the NYNEX  
17 merger or with--

18 Q You tell me?

19 A Well, with the NYNEX merger NYNEX was the  
20 local--was the regional Bell operating  
21 company from New York on up into New England  
22 and Bell Atlantic, obviously, had the mid-  
23 Atlantic states. So that really didn't help  
24 us a lot in terms of meeting customer needs

1 from a new service, new geography point of  
2 view in West Virginia, unless I had a  
3 customer in West Virginia that maybe had  
4 some affiliation in New England. The GTE  
5 merger is quite different. Take the GTE  
6 Internet, the data affiliate of GTE that is a  
7 nationwide, as testified earlier, you know,  
8 buying the fibers from Sprint, clearly  
9 customers in West Virginia might be able to  
10 get on that network and it will be able to  
11 meet their needs better than if we were not  
12 to have this merger.

13 Q You talked about a West Virginia customer  
14 having an affiliate in New England, could you  
15 explain what you mean by this?

16 A I was trying to think of an example of  
17 benefit from the NYNEX/Bell Atlantic merger  
18 to be responsive to your question about  
19 benefits in terms of new services or how it  
20 would help in terms of this scale and scope.  
21 I mean, I think our question started when we  
22 were talking about new services and how that  
23 might be helpful here.

24 Q I understand, but you used an example of

1           having a West Virginia customer with an  
2           affiliate in New England and could you be  
3           more specific and explain what you meant?  
4       A     Let me just back up for a second because I  
5           think I've gotten us on a path that is not  
6           helpful. I was trying to think of an example  
7           relating to our experience with the Bell  
8           Atlantic/NYNEX merger where there could have  
9           been some benefit, and the only thing I can  
10          think of, and a benefit, a specific benefit  
11          in regard to where we operate geographically.  
12          Now, this is not something that is every day.  
13          I'm saying there could be an example where we  
14          had customers that had presence in New  
15          England and also a presence in West Virginia,  
16          and I'm trying to think of one but none comes  
17          to mind, where we might have been able to  
18          meet that customer's needs a little better  
19          after the merger. But I don't think this is  
20          --I'm trying to think of a specific example  
21          and I can't.

22       Q     You indicate that there is a simple  
23           proposition that companies with lower costs  
24           can do more for customers than companies with



1 higher costs. Can you explain this?

2 A Yes, sir, I think they can provide more  
3 competitive responses. I--certainly price is  
4 an important factor in services offerings.  
5 It allows maybe putting more robust offerings  
6 together with more piece parts, more  
7 technology, because the cost is lower.

8 Q Is that all?

9 A Yes.

10 Q What do you mean by more competitive  
11 responses?

12 A Well, for example, if--and I'll just make  
13 this up, but I'll try to be responsive. If  
14 the University of Kentucky puts out a major  
15 RFP for new services and if GTE in Kentucky  
16 because of efficiencies and a low cost  
17 provider can meet that needs of that RFP and  
18 be very competitive, then the University of  
19 Kentucky would have benefited because of  
20 GTE's low cost position.

21 Q What about more competitive responses in a  
22 rural area, can you give us any examples  
23 there?

24 A If a company, if my company in West Virginia,

1 if my cost, like I mentioned before, that my  
2 expense is growing by 1% a year and my  
3 revenues are growing at greater than that,  
4 over the long term that is going to benefit  
5 the rural companies, I mean the rural  
6 customers as well as the urban customers,  
7 because when I sit down with the Public  
8 Service Commission in West Virginia we may  
9 reduce rates, which we have done so several  
10 times over the past ten years. But it is  
11 because of cost that we are able to do that.

12 Q And you use the term "it allows more robust  
13 offerings." What do you mean by this?

14 A If I'm a well managed company and a low cost  
15 company and I am winning in the market place  
16 because of how competitive I am, then I might  
17 be able to better invest in, for example, ATM  
18 networks, asynchronous transfer mode,  
19 networks that allow the integration of voice  
20 data and video capabilities. I would call  
21 that a very robust service. If I am not that  
22 kind of a competitive company and I don't  
23 have the financial wherewithal to make those  
24 kinds of aggressive investments, then I might

1 not be offering that kind of robust service  
2 in the market place. So, that is what I was  
3 trying to get to.

4 Q Are these residential or commercial  
5 offerings, the ones you have just described  
6 as robust?

7 A I just described a business commercial  
8 offering, but something like xDSL is a  
9 consumer offering and I would use the same  
10 example for that potentially.

11 Q Would the consumer offering in West Virginia  
12 be more in Huntington or Charleston, or  
13 Morgantown, your larger areas, or would it  
14 also include out in the very rural areas and  
15 very small towns?

16 A We have state wide uniform pricing, those--  
17 for example, those plans that I mentioned  
18 earlier, they are available to any customer  
19 in any county in West Virginia that we serve.

20 Q Now, you mentioned something about rate  
21 reductions?

22 A Yes.

23 Q Could you give us a little background on this  
24 and the size, the frequency?

1 A We have had in West Virginia since we have  
2 entered into an Incentive Regulation Plan  
3 going back to 1988, the way our Incentive  
4 Regulation Plan works is that it goes three  
5 years and then we sit down with the  
6 Commission and we decide what--you know--what  
7 we need to do, what investments, what  
8 commitments we needs to make to go further.  
9 And as a result of those Incentive Regulation  
10 Plans we have been able to give back, I think  
11 it is about \$65 million in rate reductions  
12 over this period of time, and, of course,  
13 this is with capped rates, meaning no rates  
14 went up during this period of time for all of  
15 our basic services. It is also, and I would  
16 relate this back to being a well, sound,  
17 financially strong company, it also allowed  
18 us, for example, to extend CLASS services in  
19 West Virginia to the uneconomic areas. That  
20 was part of one of our regulatory agreements.

21 COMMISSIONER GILLIS:

22 Was that part conditioned on the merger  
23 or subsequent to the merger?

24 A No, we completed that a few years back. But

1 under some of the same circumstances that has  
2 been outlined here quite frankly.

3 VICE CHAIRMAN HOLMES:

4 Will that Incentive Rate Plan continue  
5 with the proposed merger of GTE and Bell  
6 Atlantic?

7 A Yes, our Commission has approved the merger  
8 and we are under an Incentive Regulation  
9 Plan, we are about half way through a three  
10 year one and they were not mixed.

11 Q Do you have to file regularly or at some  
12 stated period in West Virginia on--make  
13 filings on the incentive rate plan?

14 A We file quarterly surveillance reports for  
15 financial data, we file quarterly  
16 surveillance reports for service quality  
17 results and annually I do a--I don't think it  
18 is required in an Order--but annually I do a  
19 kind of a state-of-the-state address on where  
20 we are with our investments and our  
21 commitments that are a part of the Incentive  
22 Regulation Plan.

23 Q And what kicks in whether there is a rate  
24 reduction or not in West Virginia?

1 A It is actually an informal process, it is at the  
2 end of the three year period of time, staff, the  
3 consumer advocate, and the company sit down, we  
4 look at our commitments, whether or not they have  
5 been made. We look at going forward for three  
6 years and we discuss, you know, what is in the  
7 best interest of West Virginia to go forward and  
8 we have been able to do that, you know, three  
9 successful times, renegotiating the Incentive  
10 Regulation Plan after it was first put into place.

11 Q And when is the next one due?

12 A It expires--I think it expires at the end of  
13 2000.

14 COMMISSIONER GILLIS:

15 So then the Incentive Plans has been in  
16 place for nine or ten years, am I  
17 calculating?

18 A Since 1988, yes.

19 COMMISSIONER GILLIS:

20 1988, 65 million reduction since then?

21 A Yes, in addition to, as I stated in my  
22 testimony, we did a world school project  
23 where we connected every K through 12 school  
24 in the state with a digital network. It also

1 includes our West Virginia 2001 initiative  
2 where we are putting ATM, asynchronous  
3 transfer mode, these big huge flexible  
4 pipes out into all 55 county court houses as  
5 well as colleges and universities across the  
6 state and the applications from those.

7 Q Do you feel that when you go or make the  
8 filing for the next one on your incentive  
9 rates there will be a reduction as a result--  
10 reduction in rates as a result of savings of  
11 this merger?

12 A I think the merger savings--first of all, the  
13 next one, I think our test year is 1999, and  
14 I think you are going to hear testimony or it  
15 is in the testimony that the savings from the  
16 merger basically take two or three years to  
17 ramp up to the full amount because you don't  
18 get all the benefits, you know, on day one,  
19 because all the consolidations and everything  
20 doesn't take place immediately, it takes  
21 place over time. But, yes, those lower costs  
22 that flow back to West Virginia will be in my  
23 quarterly surveillance reports will be before  
24 the commissions and our consumer advocates,

1           it will be--I mean they will be looking at  
2           that information when we sit down, so I'm not  
3           sure it will be in the next one just because  
4           of the test year and the timing. But it  
5           clearly would be in the one after that  
6           assuming this kind of model goes forward.

7        Q     And the one after that you do anticipate  
8           there will be a rate decrease based on cost  
9           savings?

10       A     Well, I don't want to say that now, because  
11           in West Virginia our philosophy has been in  
12           some cases rate decreases, where our rates  
13           were felt to be very high, for example, in  
14           our business services. We have done a whole  
15           lot of rate decreases there. But I will also  
16           say that there, you know, we look at  
17           investment, you know we have a hard hand that  
18           is dealt to us in West Virginia. It is kind  
19           of like eastern Kentucky all over. So  
20           investments is very, you know, is a preferred  
21           method there. So I don't want to say we will  
22           have a rate reduction but we will have a lot  
23           of flexibility for additional commitments on  
24           investment, additional programs, and rate



1 reductions. I think we put it all in and see  
2 what is the best.

3 Q But without the savings you have been able to  
4 have 65 million in rate reduction savings as  
5 a result of the merger?

6 A Those savings have been in the period of  
7 1988, starting in '88.

8 Q I know. I'm sorry, maybe I didn't make  
9 myself clear. You feel like there will be  
10 savings as a result of the merger, but even  
11 before the merger you had 65 million in rate  
12 reductions for West Virginia?

13 A Over that ten year period, yes.

14 Q Now, at the top of page 15 of your testimony  
15 you indicate that Bell Atlantic has no plans  
16 to compete in the local exchange markets  
17 anywhere in Kentucky.

18 A That's correct.

19 Q Is that present or forever?

20 A We had never contemplated--I've been the  
21 President over there for four years and it  
22 has never cross our minds.

23 Q Would this be something which would  
24 necessarily come to you as West Virginia or

1 would this be a decision made at the  
2 corporate level?

3 A Well, it would probably certainly involve me  
4 since I am right next door and would be, just  
5 obviously I think, part of the, you know, the  
6 landscape of making that kind of decision,  
7 but we have never considered it ever.

8 Q Have you been involved in any discussions  
9 relative to the entry into Louisville within  
10 the 18 months?

11 A No, I've not been involved in that at all.

12 Q So if I asked you any questions about the  
13 entry into Louisville you wouldn't have any  
14 knowledge about it?

15 A Not from an operations planning or market  
16 planning perspective, no. I do identify it  
17 in my testimony as one of the benefits,  
18 though, picking up on other witnesses and the  
19 offering that is before this Commission.

20 Q How will that be of benefit and who will it  
21 benefit?

22 A I think it will make the competitive  
23 landscape in Louisville more competitive if  
24 another tier one company comes in and

1 launches services with the assets and with  
2 some customer relationships that have been  
3 identified. I don't think that can do  
4 anything but provide benefits from increased  
5 competition.

6 Q Benefits to just the commercial accounts in  
7 Louisville or benefits overall?

8 A Well, I think Mr. Kissell has testified that  
9 it would start with the commercial accounts.

10 Q Do you see any of the merger savings in Kentucky  
11 being used to subsidize an entry into Louisville?

12 A I'm probably not the right witness for that  
13 but what I heard is that the capital would be  
14 completely outside of the committed 222  
15 million.

16 Q So you don't know whether that would be a  
17 true statement or not from your own personal  
18 knowledge?

19 A I don't--I mean I don't have a lot of  
20 personal knowledge in that specific instance  
21 but I don't believe it to be a true  
22 statement.

23 Q Your rebuttal testimony you are talking about  
24 the Appalachian area?

1 A Yes.

2 Q To your personal knowledge in Kentucky what  
3 constitutes Appalachia?

4 A Well, from the Appalachian Regional  
5 Commission's point of view it is, you know,  
6 certain distressed counties in eastern  
7 Kentucky. It is all of West Virginia from  
8 the Appalachian Regional Commission's point  
9 of view. I grew up in southern West Virginia  
10 in the mountains so I have some kind of gut  
11 intuitive feel for what Appalachia means, my  
12 dad being a coal miner and what not. So--

13 Q Would you just consider Appalachia eastern  
14 and southeastern Kentucky?

15 A I guess in my mind set what the Appalachian  
16 Regional Commission has designated as those  
17 counties which is basically eastern and  
18 southeastern. I mean that probably fits with  
19 my mind set.

20 Q Do you consider this a prosperous or poor  
21 area?

22 A It's a poor area generally.

23 Q Did you hear the witness talk about it was  
24 not profitable to go into certain areas, one

1 of the witnesses, like eastern Kentucky. I  
2 believe it was Mr. Reed?

3 A Yes, in the discussion of the CLASS services.

4 Q Uh-huh.

5 A Yes, I heard that the capital of twenty some  
6 million that the revenues would not be there  
7 to support that capital investment.

8 Q If its a poor area, do you have any feel  
9 based upon your knowledge of the area of  
10 Appalachia even if they went in there would  
11 the people be able to afford these services?

12 A Well, some would and some wouldn't, probably. I  
13 mean I would--when I think of Appalachia and  
14 eastern Kentucky I mean I think of McDowell and  
15 Mingo and Logan Counties in West Virginia which  
16 border some of those areas.

17 CHAIRMAN HELTON:

18 Mr. Bone, every--you state that everyone  
19 of your central offices offers the CLASS  
20 services.

21 A That's correct.

22 CHAIRMAN HELTON:

23 Do you not have similar areas in West  
24 Virginia that are very similar to the

1 cities that you just mentioned in  
2 Kentucky?

3 A Yes.

4 CHAIRMAN HELTON:

5 And you are offering those CLASS  
6 services there?

7 A Yes.

8 CHAIRMAN HELTON:

9 And people are availing themselves of  
10 those services?

11 A Well, first of all, as I said before, we are  
12 offering those because of a regulatory  
13 commitment that we made with one of our  
14 Incentive Regulation Plans back in the early  
15 1990s. So that is why we are offering them.  
16 I don't track--

17 CHAIRMAN HELTON:

18 Wait just a second, so you didn't do it  
19 because it was economically advantageous  
20 to your company?

21 A That's correct. I mean I think there is a  
22 reality here if we are a competitive company  
23 and we are making investment decisions based  
24 on, you know, are you going to make money or

1           lose money on this investment. And if you  
2           know you are going to lose money on it, you  
3           know, you wouldn't make the investment. I  
4           think that is why the Commission has, you  
5           know, you can enter into social regulation,  
6           you know, which all Commissions do to make  
7           these kinds of things happen. In this case  
8           it is a benefit under the merger commitment  
9           to go in and do this, partially offset by the  
10          flow back of the merger savings. But to get  
11          to--to answer your question you have to, you  
12          asked do I know the--if whether those  
13          customers in those counties, in those rural  
14          depressed counties are buying those services,  
15          I don't think they are buying them at the  
16          clip that let's say Charleston or Huntington  
17          or Morgantown is buying them. But some of  
18          them are.

19        Q       If they are not buying them at the clip you  
20                say is the--they are in the larger cities,  
21                would not these people be best served with a  
22                rate decrease as opposed to the service they  
23                are not going to buy anyway?

24        A       Well, in West Virginia I know we have

1 lifeline plans and we have some low cost  
2 plans for our customers that, you know, that  
3 are in a hard position, but, at the same  
4 time, those services can be very valuable for  
5 other households, you know, Caller ID and  
6 return call and three-way calling. Some of  
7 those services are extremely valuable for  
8 some customers, so you know that is a hard  
9 question.

10 Q But if we put it on the profit motive and you  
11 go in there and people don't buy, that  
12 doesn't help the bottom line does it?

13 A I'm sorry, I don't quite understand your question,  
14 put on the profit motive?

15 Q Well, did you hear the witness testify that  
16 GTE is not into some of these rural areas now  
17 just because it is not profitable?

18 A That's correct.

19 Q So if the money is spent and people still  
20 don't subscribe to these services, that  
21 doesn't help the profit does it?

22 A No, sir, and I think that is why it is of  
23 significant benefit that it is basically part of  
24 the merger commitment.



1 Q To give the people something they don't want  
2 or won't subscribe to?

3 A Well, I think some of them will, but, as we  
4 have discussed, not all of them will. But  
5 certainly some will.

6 Q When did West Virginia become all digital  
7 central offices?

8 A Approximately 1993.

9 Q And when did all of your customers have CLASS  
10 services, assuming they do, when did they  
11 finally have all services available to them?

12 A Approximately the same time.

13 Q And how long did it take for them to get  
14 these services?

15 A We entered into that commitment I believe  
16 with the Public Service Commission in 1988.  
17 That is when we first rolled out a very  
18 aggressive technology acceleration plan to  
19 digitalize all of our switches and to  
20 introduce custom calling CLASS services.

21 Q So how many years does it take from when it  
22 started to when it was finished?

23 A I think that is five, maybe six years. I  
24 wasn't President then, I--but that is

1 generally the time frame.

2 Q Do you think all companies have to offer  
3 CLASS services now?

4 A Do I think all companies have to offer CLASS  
5 services?

6 Q Yes.

7 MR. WALKER:

8 Let me just ask for a clarification by  
9 the phrase "have to," as regulatory or  
10 competitive necessity?

11 MR. WILLIS:

12 Competitive necessity.

13 A No, sir, I do not. I don't think--again, if you  
14 are looking at a very rural area with very few  
15 scattered customers that have a very low income, I  
16 don't think there is going to be a lot of people  
17 coming in there investing a lot of money to offer  
18 them their services when there is much stronger  
19 and better competitive alternatives for that  
20 investment.

21 MR. WILLIS:

22 Thank you I have no further questions.

23 COMMISSIONER GILLIS:

24 If you had the decision, Mr. Bone, to spend \$24

1 million to provide CLASS services to people in  
2 West Virginia, assuming they didn't have it let's  
3 say, or to use that money in some other purpose  
4 such as rate reductions or other things as Mr.  
5 Willis mentioned other things, what do you think,  
6 in your opinion, would be the best use of that  
7 money?

8 A Well, that is a great question and certainly  
9 one that you are obviously toying with here.  
10 One thing about West Virginia that we decided  
11 to do in the early '90s is, because we knew  
12 our economy was changing, especially our  
13 southern West Virginia economy with the coal  
14 mines dwindling and with the little bit of  
15 chemical manufacturing all down sizing, we  
16 knew we had to create an economic  
17 infrastructure to bring new businesses in.  
18 And at the time the public policy folks in  
19 West Virginia, Governor Caperton and the  
20 Public Service Commission, they looked to  
21 telecommunications to do that. And they  
22 wanted to create a state-of-the-art  
23 telecommunications network all through the  
24 state. They wanted to try to lure companies

1 and new kinds of workers and not have  
2 telecommunications holding us back. And  
3 those were purposeful decisions that were  
4 made. And I think that has generally paid  
5 off for us because we have seen the coal  
6 mines go down to like 15,000 miners from  
7 150,000, or whatever it was, and we have seen  
8 these industries transition. But at the same  
9 time we are starting to lure new companies  
10 into those areas, into the Logans, into the  
11 Welch's and some of those very depressed  
12 areas. But--and we are counting our  
13 telecommunications infrastructure as part of  
14 that. So I think that comes into play in  
15 some of that decision, but, you know, it is a  
16 weighty decision on to what to do with that.

17 VICE CHAIRMAN HOLMES:

18 Mr. Bone, do you see any inconsistencies with when  
19 I hear like benefits Louisville if a tier one  
20 company such as Bell Atlantic/GTE is permitted to  
21 go in, that they create a more competitive market  
22 place. Then I hear also that if competitive  
23 pressures in GTE/Bell Atlantic's franchise area  
24 occurs, then we can't expect to get the

1 investments that we discussed here today?

2 A I'm not sure I understand the second part of  
3 the question. I understood the first part  
4 about--

5 VICE CHAIRMAN HOLMES:

6 I guess there are benefits to Louisville if a  
7 competitor is able to enter that market, but I'm  
8 hearing if Bell Atlantic/GT don't retain a four or  
9 five percent growth then they can't make that  
10 investment?

11 A That investment where?

12 VICE CHAIRMAN HOLMES:

13 In the franchise service territory.

14 A In a part of your question I think is routed  
15 into the tremendous changes going on in our  
16 market place. I mean, in Lexington, for  
17 example, we know that Hyperion has a switch,  
18 has deployed fiber throughout Lexington. I  
19 know there is a couple of other CLECs, I  
20 think BellSouth is also deploying in  
21 Lexington. I think Bell Atlantic in our  
22 competitive cities and GTE in their  
23 competitive cities where they see large  
24 business accounts that used to subsidize, you

1 know, local areas, and then coming under this  
2 competitive pressure, you know, you look at  
3 that and you say how are we going to be able  
4 to continue to serve all of these areas? And  
5 this gets into universal service and carrier  
6 of last resort and these big public policy  
7 issues in telecommunications. The one point  
8 that I don't think has been made real clear  
9 here today is the fact that Bell Atlantic/GTE  
10 together becomes a much stronger competitor  
11 in this nationwide thing. We are going to be  
12 able to better compete with the AT&Ts and the  
13 MCI's and the Sprints. We are going to be  
14 stronger in Lexington even, probably in the  
15 long run because of this merger. So I think  
16 even there there are some, you know, in the  
17 long term I would want to be in West  
18 Virginia. I want to be part of a bigger  
19 stronger national successful company and have  
20 those resources available to me for southern  
21 West Virginia because I think in the long run  
22 that will be healthier for me.

23 VICE CHAIRMAN HOLMES:

24 They say it--by your going into Louisville then

1           you take away 4% to 5% growth from BellSouth,  
2           could we expect to see less investment by  
3           BellSouth because of that loss of--  
4        A    No, I see it a different model. I see  
5           competition breeds investment. You know, we  
6           are going into Louisville and, again, I'm  
7           probably not the right one to talk about the  
8           capabilities of the DBN data network that GTE  
9           has but from all I read and hear about it, I  
10          mean, it is the best resources. It basically  
11          was the company that started the Internet  
12          world--nationwide, that that asset is going  
13          to be deployed in Louisville but now it is  
14          going to be deployed as part of a much  
15          stronger company. I mean the relationships  
16          that Bell Atlantic have with Fortune 100 or  
17          Fortune 500 customers on the east coast, we  
18          are able to bring some of that in. But we  
19          are really only getting--starting to get up  
20          to par with maybe an AT&T that has a  
21          nationwide data network, has relationships  
22          with all of these customers, has the same  
23          technology from Lucent and Sysco and all  
24          these technology--we all buy the same

1           technology generally. So, I think there is  
2           benefits for Louisville but I don't think it  
3           will cause BellSouth to invest less, I think  
4           it will cause them to be right there with the  
5           latest offerings and the best capabilities.

6           CHAIRMAN HELTON:

7           I don't mean to replot ground, Mr. Bone, but in  
8           the Bell Atlantic/NYNEX merger you were talking  
9           about, particularly in your Incentive Plan, 1999  
10          is going to be a test year. So, by this time, if  
11          there were savings from the Bell Atlantic/NYNEX  
12          merger, we should be able to see some results of  
13          those and, yet, I thought I heard you say that  
14          nobody has been tracking those and therefore you  
15          don't have any clear information on the savings  
16          that obviously were part of a merger proposal when  
17          Bell Atlantic and NYNEX merged?

18         A       That's a good question and we haven't tracked  
19           the savings from that, what would our expense  
20           line be with the merger, without it, because  
21           I think that was really what the question is  
22           getting at, can you tell me how much you have  
23           really saved and how much has really hit the  
24           books? But the point is that whatever



1 savings there have been, and I believe there  
2 have been, and I think Wall Street believes  
3 there has been because they think this is  
4 what Wall Street looks at when they look at  
5 these mergers and see what the benefit is  
6 going to be. They are flowing to our  
7 company. Whatever they are, they are  
8 flowing. I can't quantify what they are, I  
9 can tell you that my expense line is growing  
10 at a very slow rate at 1%, which I'm happy  
11 with. Part of that is probably some of the  
12 less overhead and some of the benefits from  
13 the purchasing power from the NYNEX merger.  
14 And I think the NYNEX merger will flow  
15 directly to the table when we sit down with  
16 our financials and with our next commitment,  
17 just as I think that in West Virginia the GTE  
18 merger would in a time period after that.

19 CHAIRMAN HELTON:

20 So you are--you mentioned that your expense growth  
21 is 1% and that increases your profit, and that  
22 should be all that the NYNEX merger played into  
23 that. So since your customers already had, at the  
24 time of the NYNEX merger, you already had CLASS

1 services in all of these offices, what benefit  
2 have the customers seen in West Virginia from the  
3 NYNEX/Bell Atlantic merger?

4 A Well, the Commission in approving that  
5 merger, first of all, didn't put any  
6 explicit, you know, investment or rate  
7 reduction, there were no commitments with the  
8 NYNEX merger, just as there were no  
9 commitments with the GTE merger. But I think  
10 it is going to come down to this number that  
11 I can't quantify what it is, lower cost that  
12 is going to come into the financials that is  
13 going to play out when we renegotiate our  
14 incentive regulation plan. And I also think  
15 it comes into this best practices area. This  
16 employee called that program that I talked  
17 about in my testimony, I mean that sounds  
18 simple but we were not doing that and NYNEX  
19 had managed that very well. And our  
20 customers tell us that is a great benefit and  
21 that is what we are trying to do is light the  
22 customers. So I--you know, for me to sit  
23 here and take stock of dollars and what not,  
24 I don't know if I can put my hands around

1           them but I can clearly sit here and say that  
2           there has been tangible benefits.

3           CHAIRMAN HELTON:

4           Okay, and I notice that in your testimony,  
5           particularly in talking about the investments  
6           since 1988 since you all have been an Incentive  
7           Plan Company, that you mentioned not only a  
8           billion in capital that you have invested but also  
9           that in 1998 your company invested 134 million in  
10          the state of West Virginia which would be  
11          comparable probably in the size of the GTE area of  
12          Kentucky?

13          A       It is more access lines. I'm not sure about  
14          geographic size.

15          CHAIRMAN HELTON:

16          So we are talking a 134 million versus we have  
17          heard testimony this morning of like 85 million in  
18          `97 and `98 in Kentucky.

19          A       In GTE.

20          CHAIRMAN HELTON:

21          In GTE. So is the result that difference in  
22          investment in West Virginia, do you think that is  
23          a result of being a part of a larger company Bell  
24          Atlantic or is that a part of being under

1           incentive rate plan?

2       A     We do have a capital commitment in our  
3           Incentive Rate Plan and it is 225 million  
4           over three years, which is 75 million a year.  
5           You can see that 134 million is almost  
6           doubled the commitment.  If--when we were in  
7           1996 going through the merger hearing on--  
8           with NYNEX, our Commission was asking us with  
9           Bell Atlantic, your 5% of Bell Atlantic, or  
10          nearly five, with the new company you are  
11          going to be about 2%.  You are going to be a  
12          much smaller fish and you are going to be  
13          competing with New York, Boston, you know,  
14          you are going--your voice is going to get  
15          lost.  And we looked at capital as one of the  
16          key areas.  And since that time we have gone  
17          to 107 million I believe and 134 million.  
18          Our capital is doing great and this year I'm  
19          probably going to eclipse the 134 million.  
20          And because Bell Atlantic's capital, when we  
21          put the two companies together in 1997, I  
22          think it was about 5.5 billion was our total  
23          capital plan.  This year we just announced to  
24          the analyst it just went from 8.1 to 8.4, 8.4

1 I think is the revised. That is a huge  
2 difference in two years. But we are a  
3 stronger company. And I feel better being  
4 part of a stronger company and the experience  
5 shows. Those numbers are great numbers.

6 CHAIRMAN HELTON:

7 And following up on Commissioner Holmes' questions  
8 there are some similarities between West Virginia  
9 and Kentucky but I think in one area maybe there  
10 is not as many similarities. How many ILECs do  
11 you have in West Virginia?

12 A The independent local exchange carriers, there are  
13 eight total companies so there would be seven  
14 ILECs.

15 CHAIRMAN HELTON:

16 And how--what percentage of that market does Bell  
17 Atlantic have?

18 A About 80% and the ILECs have the other 20.

19 CHAIRMAN HELTON:

20 Are you talking about those other ILECs as being  
21 small telcos?

22 A Six are real tiny and one is Citizens which  
23 is pretty good size.

24

1 CHAIRMAN HELTON:

2 But in comparison to GTE which is competing with  
3 BellSouth in Kentucky you don't have a similar  
4 circumstance, do you?

5 A No, I do not.

6 CHAIRMAN HELTON:

7 How many CLECs do you have certified in West  
8 Virginia?

9 A It is about a 100.

10 CHAIRMAN HELTON:

11 And do you have operational and functioning  
12 interconnection agreements with them?

13 A Yes, I do.

14 VICE CHAIRMAN HOLMES:

15 You have signed interconnection agreements?

16 A Uh-huh, yes, several.

17 CHAIRMAN HELTON:

18 And how many do you have actually providing  
19 service?

20 A Three or so in Charleston, maybe one in Wheeling,  
21 maybe a couple in the Morgan--maybe four--three,  
22 four to five in that area. We just lost our  
23 Department of Health and Human Services to a CLEC.  
24 We just lost a major contract in Charleston to a

1 company.

2 CHAIRMAN HELTON:

3 Thank you.

4 MR. WALKER:

5 Just one moment.

6

7

REDIRECT EXAMINATION

8 BY MR. WALKER:

9 Q Just one question. Mr. Bone, would you accept,  
10 subject to check, that GTE has about 590,000  
11 access lines in Kentucky?

12 A Yes, I would.

13 Q And how many access lines does Bell Atlantic  
14 West Virginia have?

15 A It is 800 and some thousand, I don't know the  
16 exact number, maybe 880,000, I would have to  
17 look at some data to know exactly.

18 Q That's the ballpark though?

19 A Yes.

20 MR. WALKER:

21 Thank you, I have nothing further.

22 CHAIRMAN HELTON:

23 Mr. Atkinson?

24





1           `80s or early `90s, was actually part of two  
2           of those, I believe, where we had some very  
3           specific commitments to investment as part of  
4           those Incentive Regulation Plans with our  
5           Public Service Commission. And that's why we  
6           were aggressive in finishing that.

7                   MR. ATKINSON:

8                           Okay, I have nothing further.

9           COMMISSIONER GILLIS:

10           Just one follow up, you mentioned that the only  
11           went from the savings in the NYNEX/Bell Atlantic  
12           merger to pass through has been through the IRP?

13           A       Yes.

14           COMMISSIONER GILLIS:

15           Incentive Rate Plan? Okay?

16           A       That's the primary way. I don't want to say  
17           that is the only way, that is the primary  
18           way.

19           COMMISSIONER GILLIS:

20           Okay, absent the Incentive Rate Plan in place and  
21           GTE having a rate of return, you are saying it  
22           would be necessary for those savings to pass  
23           through only through a rate case in a rate of  
24           return state?

1 MR. WALKER:

2 Can I ask for a point of clarification? By pass  
3 through are you using it in the context here of  
4 just a rate reduction to the exclusion of  
5 investments and other things, or do you mean to  
6 include investments as part of that also?

7 COMMISSIONER GILLIS:

8 Well, investment being equal, the 225, 222, I'm  
9 saying rates.

10 MR. WALKER:

11 Okay.

12 COMMISSIONER GILLIS:

13 Two twenty-five that you have in place now for  
14 your commitment on capital and 222 that we are  
15 talking about capital investment for the next  
16 three years, so I'm talking about rates  
17 specifically.

18 A And let me make sure I heard your question.

19 COMMISSIONER GILLIS:

20 I'm asking--

21 A About pass through--

22 COMMISSIONER GILLIS:

23 Yes.

24 A Is a rate case the only way to do that?

1 COMMISSIONER GILLIS:

2 For ratepayers in a franchise area to get those  
3 savings you are saying that that would be, in your  
4 case, the only way for that to happen?

5 A Well, I just thought of it when I gave my  
6 little footnote before--

7 COMMISSIONER GILLIS:

8 Caveat?

9 A Yes, I just thought of one where we have actually  
10 voluntarily given back, given back maybe is the  
11 wrong word, but our toll--intraLATA toll rates in  
12 West Virginia are extremely high. Our intraLATA  
13 toll market at one time was about \$140 million in  
14 West Virginia. Now it is about--this is probably  
15 proprietary information, it is probably less than  
16 a third of that or about a third of that. But  
17 when our Commission ordered intraLATA  
18 presubscription, we are sitting out here with  
19 extremely high toll rates, we had to start  
20 reducing our rates big time otherwise we wouldn't  
21 have a customer left. And when we started putting  
22 together these bundled packages like putting, you  
23 know, LATA-wide calling as part of a basic flat  
24 rate monthly package, you know we are getting much

1 less--that might have been a customer that was  
2 making a \$150 a month in intraLATA toll, it could  
3 have been. We have some of those. Now, that for  
4 \$59 a month he is getting all of their basic  
5 services, nine custom calling features and  
6 intraLATA toll. A tremendous savings. But we  
7 kept that toll and we kept that customer. So we  
8 had significant rate reductions through toll,  
9 also, and through competitive pricing packages.  
10 So I just remembered that and it is a lot of  
11 dollars here, millions, tens of millions of  
12 dollars. I think Mr. Blanchard, you know,  
13 heading up the regulatory for GTE would welcome  
14 that question.

15 COMMISSIONER GILLIS:

16 Thank you.

17 CHAIRMAN HELTON:

18 Thank you, you may be excused.

19 A Thank you.

20 CHAIRMAN HELTON:

21 And we will take a lunch break and reconvene at  
22 two.

23 (OFF THE RECORD)

24

1 MR. FOSTER:

2 Our next witness is Dr. William Taylor and Mr.  
3 Carlisle will handle that.

4 (WITNESS SWORN)

5  
6 The witness, DR. WILLIAM TAYLOR, having first been  
7 duly sworn, states as follows:

8 DIRECT EXAMINATION

9 BY MR. CARLISLE:

10 Q Please state your name and business address for  
11 the record.

12 A My name is William E. Taylor, my business address  
13 is One Main Street, Cambridge, Massachusetts  
14 02142.

15 Q Where are you employed and in what capacity?

16 A I am Senior Vice President of National Economic  
17 Research Associates, Inc.

18 Q Dr. Taylor did you prefile direct testimony in  
19 this proceeding consisting of 38 pages?

20 A Yes, I did.

21 Q Do you have any changes, additions or corrections  
22 to this testimony?

23 A No.

24 Q If I were to ask you the same questions today that

1 are contained in your direct testimony, would you  
2 give the same answers?

3 A I would.

4 MR. CARLISLE:

5 Madam Chair, I would ask that Dr.  
6 Taylor's direct testimony be entered  
7 into the record as if given orally on  
8 the stand.

9 CHAIRMAN HELTON:

10 So ordered.

11 Q Dr. Taylor, did you also file rebuttal testimony  
12 in this proceeding consisting of 21 pages?

13 A Yes, I did.

14 Q Do you have any changes, additions or corrections  
15 to that testimony?

16 A Yes, one typo actually. On page one, line eleven,  
17 it should be: "Yes. I filed Direct Testimony on  
18 July 9, 1999."

19 Q Do you have any other changes?

20 A No.

21 Q Taking into account the change you just mentioned,  
22 were I to ask you the same questions contained in  
23 your prefiled rebuttal testimony, today, would  
24 your answers be the same?

1 A Yes, they would.

2 MR. CARLISLE:

3 Madam Chair, I would ask that Dr.  
4 Taylor's rebuttal testimony be entered  
5 into the testimony as if given orally on  
6 the stand.

7 CHAIRMAN HELTON:

8 So ordered.

9 MR. CARLISLE:

10 The witness is available for cross-  
11 examination.

12 CHAIRMAN HELTON:

13 Mr. Hughes, Mr. Atkinson?

14 MR. ATKINSON:

15 No questions, Madam Chairman.

16 CHAIRMAN HELTON:

17 Ms. Cheuvront?

18 MS. CHEUVRONT:

19 No questions.

20 CHAIRMAN HELTON:

21 Mr. Wright?

22 MR. WRIGHT:

23 Yes, Madam Chairman, just give me a half a second  
24 to organize.

1 CROSS EXAMINATION

2 BY MR. WRIGHT:

3 Q Dr. Taylor, on page three of your testimony you  
4 use the term cross-subsidization. Would you  
5 please explain that for the record, please? It is  
6 on page three starting at line thirteen, "In both  
7 local and long distance markets. . .".

8 A Yes. By cross-subsidization I mean for a  
9 regulated firm that prices one service below total  
10 service long run incremental cost. That is an  
11 economist's definition of what a cross-subsidy to  
12 a service is. So, what I am saying here is it has  
13 no ability or incentive to do that.

14 Q Briefly, would you just summarize how you think  
15 this merger would increase competition in  
16 Kentucky?

17 A Sure. Several ways. Let's look at local markets  
18 and long distance markets separately. For local  
19 exchange markets, one condition of the merger is  
20 expansion of competition from the current  
21 territory in Kentucky into Louisville. So, there  
22 is a commitment in the merger, holding everything  
23 else equal, to compete in Louisville. That's one.  
24 Second, and less sort of obvious or immediate, in



1 the very long run people are concerned, economists  
2 are concerned that regional telephone companies  
3 aren't going to survive. They are not all going  
4 to survive, they may become niche players, but in  
5 a world where we have kind of the AT&T behemoths,  
6 the British Telecom, the Sprint Trans-Telecom, the  
7 Deutsche-Telekom, MCI WorldCom, if you have firms  
8 like this that provide global service to  
9 everybody, what is a little regional firm to do?  
10 A little regional firm may specialize, may get  
11 some customers here, some customers there, but it  
12 is not going to be a cutting edge firm and it is  
13 not going to be a firm that will be bringing all  
14 of the benefits of the information age to all of  
15 its customers. So, that is sort of a second way  
16 in which the merger, by assuring that the merged  
17 firm is going to be one of the telecom players in  
18 the next twenty years, is going to be good even  
19 for residential customers, local exchange  
20 customers in Kentucky. In a long distance, I  
21 guess, the benefits that I have in my testimony  
22 are two: One is when you are building a long  
23 distance network, either by resale or by building  
24 your own facilities, combining two companies long

1 distance efforts has big savings because you only  
2 need one infrastructure, you only need one  
3 computer system to sign people up, et cetera, et  
4 cetera; and, second, in the short run, when  
5 instead of building your own system you are simply  
6 reselling long distance services of others, you  
7 get a better deal; that is, most long distance  
8 resale contracts have volume and term commitments  
9 in it. The more volume you can bring the lower  
10 the price. So, that is going to help this new  
11 long distance competition compete with the  
12 facilities based traditional AT&T, MCI and Sprint.

13 Q Is it true to say that it is better to have three  
14 or four large competing firms than it would be to  
15 have multiple small competing firms--companies?

16 A That is not always true. It is probably true in  
17 telecommunications where there are big economies  
18 of scale; that is, using the same network or the  
19 same software or the same switch to do lots of  
20 different things and to serve lots of different  
21 minutes. On the other hand, there is nothing you  
22 can do about it. I mean, maybe it would be a good  
23 thing to have lots of little telephone companies,  
24 but the forces of competition are going to tell

1           you who is going to survive and who isn't, and  
2           that is not something that we can stand here and  
3           say, well, no, we would prefer it if AT&T would  
4           stay small or something like that. It is out of  
5           our hands.

6       Q     Would this merger facilitate entry of CLECs?

7       A     Well, I can think of one way at least in the long  
8           run that it would. On the whole I'd say it is  
9           probably neutral, but in the long run CLECs will  
10          find it easier as they enter on a national basis  
11          if they enter in competition with fewer ILECs.  
12          That is by and large ILECs have different ordering  
13          systems, different OSS, different interfaces  
14          against which if you are a CLEC you are going to  
15          have to plan your entry. So if you are AT&T you  
16          have a CLEC that is going national you have to  
17          build dozens of them. If we have a merger between  
18          Bell Atlantic and GTE and in the long run, not  
19          necessarily the short run, but in the long run as  
20          Bell Atlantic and GTE systems become similar  
21          competing against them becomes similar because you  
22          only need to write one set of software, one set of  
23          OSS, to compete.

24       Q     In your testimony and in your rebuttal

1 testimony you talk about the Department of  
2 Justice having examined the matter of this  
3 merger for anti-trust competition problems.  
4 Do you know whether or not the Department of  
5 Justice, specifically, looked at the Kentucky  
6 issue?

7 A I can't swear as a matter of personal  
8 knowledge because, of course, I wasn't there,  
9 but they were obliged to. If you read the  
10 statement of the Clayton Act, which is what  
11 they said they had done and what they said  
12 they had found, as I said in my testimony,  
13 the relevant part of Section 7 of the Clayton  
14 Act says no person engaged in commerce shall  
15 acquire directly or indirectly another person  
16 engaged also in commerce--blah, blah, blah--  
17 where in any line of commerce or any activity  
18 or any activity affecting commerce in any  
19 section of the country--so when the Justice  
20 Department then looks at that and says that  
21 there is no reason under the Anti-Trust laws  
22 to proceed with further litigation, they are  
23 committed that they have observed that there  
24 is no effect, no--the effect of such

1 acquisition is not to substantially lessen  
2 competition or to tend to create a monopoly  
3 in any section of the country, and that  
4 includes Kentucky.

5 Q On page four of your testimony you state that  
6 increased scale and geographic reach is  
7 important in global competition of  
8 telecommunication services. Please explain  
9 how this merger will increase GTE's ability  
10 to compete globally?

11 A By combining with Bell Atlantic a large  
12 corporation with a whole set of different  
13 customers all of whom are active, or many of  
14 whom are active globally, for GTE this is an  
15 opportunity to get into a set of customers  
16 that they don't currently have. It also  
17 gives them sheer size which enables them to  
18 be part of a network which can compete with  
19 the likes of AT&T, TCI, TCG and these others.  
20 So there is a size effect, just gross size,  
21 but there is also a customer effect. You  
22 know Bell Atlantic serving New York City  
23 serves some moderately large fraction of  
24 headquarters of American companies which are

1 global. And GTE is not plugged in to the  
2 extent that Bell Atlantic is into that  
3 market. This is an opportunity for them to  
4 serve that market as well.

5 Q Having a global effect will not bother  
6 competition in Kentucky though, having that  
7 large global effect?

8 A Well, I wouldn't say the Justice Department  
9 didn't say it would bother it in the sense of  
10 making competition in Kentucky less likely, I  
11 think it would aid the effects of competition  
12 that is bringing new services, lower cost,  
13 lower price to customers just because the way  
14 technology seems to work in telecom is these  
15 things come first to business customers.  
16 Now, you invent something and where the money  
17 is made is in business and if you can come up  
18 with an idea there, that is where it is going  
19 to come at us first. That's where all the  
20 high band width services, the data service is  
21 now. But those get specialized down to our  
22 level. In Boston now I can get ADSL to give  
23 me always on high band with access to the  
24 Internet. It happens to matter to me and you

1 know I'm looking forward to it, but that may  
2 not be something that you could get from a  
3 specialty carrier or someone who hasn't kept  
4 up with technology. And that is the  
5 advantage of being part of a large state-of-  
6 the-art global player. And that's the sense  
7 in which I think it even helps residential  
8 customers.

9 Q On pages 10 and 11 of your testimony you  
10 state that GTE already has some brand  
11 recognition, existing customer relationships,  
12 and existing facilities in Louisville. This  
13 suggests that the company could enter the  
14 market quickly without the merger. Would you  
15 explain how the merger will speed GTE's entry  
16 into the Louisville market?

17 A Well, I guess the main reason is customers again.  
18 That is in Louisville, that is not GTE home  
19 territory, it is better than trying to enter New  
20 York City probably, but who knows them there? Who  
21 do they have customer relationships with there?  
22 Moderately few people, but Bell Atlantic does.  
23 That is Bell Atlantic serves headquarters and  
24 other locations of firms which are big players in

1           Louisville. And that gives the merged company a  
2           way in, that is a customer relationship, an  
3           existing customer relationship with these  
4           BellSouth customers that GTE wouldn't have on its  
5           own.

6       Q     Okay. On page 11 of your testimony you state  
7           that GTE's ability to compete in out of  
8           region markets like Louisville will improve  
9           the company's ability to provide reasonable,  
10          fair, reasonable service at fair, just and  
11          reasonable rates to all of its customers.  
12          How will the company's entry into Louisville  
13          benefit GTE's customers in Lexington and  
14          surrounding areas?

15       A     Well, being able to provide a full set of  
16           services to customers everywhere in Kentucky  
17           helps GTE's bottom line. In the sense that  
18           serving high cost areas, serving residential  
19           areas at prices which are sometimes not as  
20           high as incremental costs, the ability to do  
21           that, the ability to either subsidize or  
22           subsidize services or just to provide  
23           services below the level that the market  
24           would ordinarily call for depends on being



1           able to fund things elsewhere. So we see in  
2           unregulated markets for example a lot of  
3           telephone companies expanding, that is  
4           providing services where they didn't before  
5           geographically and providing new services.  
6           And all of that, in my view, is an effort to  
7           find ways to cover their fixed and common  
8           costs. That is, and to make money, which is  
9           obviously part of that, and as a consequence  
10          of doing that successfully they can then  
11          continue to provide services where they are  
12          required by regulation at prices below what a  
13          competitive market would ordinarily dictate.

14        Q    What--page 17 of your testimony, I think it  
15            starts around line 15. Can you go over those  
16            market merger guidelines that you call before  
17            necessary conditions, objective factors, to  
18            identify harmful effects?

19        A    Sure. Let me give you a little background.  
20            The merger guidelines are what the Justice  
21            Department and the Federal Trade Commission  
22            look at whenever they try to decide whether  
23            they should intervene in a merger. So it is  
24            their statement about the economic things

1 that are important to look at in deciding  
2 whether a merger is anti-competitive or not.  
3 The ones we are talking about here on page 17  
4 are a special sub-set of those. It is where  
5 we are not worried about actual competition,  
6 not about looking at who all is supplying  
7 services in the market, but we are looking at  
8 potential competition. Now, who could be  
9 supplying services in the market. And this  
10 is what the Justice Department does, what  
11 most economists look at to determine if  
12 eliminating a potential entrant, which is  
13 what a merger might do, is going to have  
14 anti-competitive effects. And the things  
15 they look at are market concentration, that  
16 is the fraction of the market that is served  
17 by the incumbent, so that is a big number in  
18 most telephone cases; ease of entry, can lots  
19 of people come in. Well, since the 1996 Act  
20 that entry has become a lot more easy.  
21 Likelihood of entry by the acquiring firm,  
22 that is would they have come in if it weren't  
23 for the merger, and I think you have heard  
24 lots of testimony that says Bell Atlantic

1           wasn't thinking of coming into Kentucky. And  
2           market share of the acquired firm, which is  
3           for Bell Atlantic zero in Kentucky; for GTE  
4           in the geographic markets in question is  
5           quite large. So, those are the items that  
6           the Justice Department would look at, kind of  
7           the bottom line of this part of the rules is,  
8           unless there are fewer than three similarly  
9           situated firms who have equally likely, have  
10          an equal ability to enter the Justice  
11          Department doesn't touch the merger, doesn't  
12          find it is likely enough to have anti-  
13          competitive effects from removing a potential  
14          competitor. And obviously there are far more  
15          than three potential competitors in my view,  
16          more likely than Bell Atlantic to enter GTE's  
17          territory. So that is why--that is one  
18          reason why the Justice Department declined to  
19          find that there was anything anti-competitive  
20          in the merger. Let me just toss one more on  
21          the fire, it is very rare in anti-trust  
22          litigation, I can't think of an example, in  
23          which a merger is turned down, or in which a  
24          Clayton Act violation is found, solely on

1 potential competition grounds. That is, it  
2 is a fuzzy kind of thing. Gee, if it weren't  
3 for the merger these guys would have entered  
4 and prices would have been lower dot, dot,  
5 dot. There is a lot of hypothetical thinking  
6 that goes behind that and it doesn't really  
7 stand up to litigation. There are very few  
8 examples where even if the Justice Department  
9 decides that there is a potential competition  
10 problem that they actually litigate it. And  
11 this is one where they decided there wasn't  
12 one, there wasn't such a problem.

13 MR. WRIGHT:

14 Thank you Dr. Taylor. That's all I  
15 have.

16 VICE CHAIRMAN HOLMES:

17 You know how many entrants, competitors there are  
18 that exist in GT's market today?

19 A Yes, I think I know the big ones. I would  
20 say maybe about five, Espire, Hyperion,  
21 BellSouth, Intermediate Cable, those are kind  
22 of local exchange competitors, then for long  
23 distance of course there is AT&T, MCI, and  
24 Sprint, and those are actual competitors.

1 CHAIRMAN HELTON:

2 Mr. Gillis.

3 COMMISSIONER GILLIS:

4 On page three you talk about you conclude that the  
5 merger will enhance rather than diminish  
6 competition in Kentucky. I want to focus on the  
7 enhanced just a minute.

8 A Sure.

9 COMMISSIONER GILLIS:

10 We have Bell Atlantic, as we heard from Mr. Bone  
11 this morning in West Virginia who indicated that  
12 they had never even thought about coming into  
13 Kentucky and one would think that that would be a  
14 natural competitor for eastern Kentucky being  
15 right adjacent to it. But now that the merger is  
16 in place and if it goes through they will be one  
17 and will continue never to think about coming into  
18 Kentucky. How, as you say, will it enhance  
19 competition, how will it enhance competition and  
20 from whom if competitors right adjacent to each  
21 other never even thought about competing?

22 A Well, first if it is the case, and Mr. Bone  
23 said it was, and he would probably know, that  
24 Bell Atlantic never even thought of entering

1 Kentucky then we haven't reduced competition  
2 at all, if after the merger they are  
3 precluded from being a competitor in  
4 Kentucky. So you are no worse off if you  
5 believe the evidence that says they never  
6 even thought. I tend to believe that  
7 evidence because what you need to enter a  
8 local exchange market to my mind are sort of  
9 three things in order to succeed. You should  
10 have facilities in the area that you can  
11 build off of, and Bell Atlantic hasn't got  
12 any facilities in Kentucky they can build off  
13 of. You need customer relationships. It is  
14 hard to start from scratch, very easy to put  
15 a little box on your bill and it says, you  
16 buy long distance from me, check here if you  
17 want local service. That is easy marketing  
18 and you know without much effort you can get,  
19 if you are a good company, a pretty good  
20 slice of the market. Customer relationships  
21 facilities and brand name. Well, if you look  
22 at the geography as I remember it of eastern  
23 Kentucky and kind of western West Virginia  
24 they are not many marketing areas which

1 overlap. The example that we always used to  
2 use was in the Bell Atlantic NYNEX case.  
3 Well, Bell Atlantic and NYNEX came together  
4 and were contiguous which is what you were  
5 worried about, was right down the Hudson  
6 River. It was New Jersey and New York, and  
7 if you sit in New York you look at New Jersey  
8 television stations. And if you look at New  
9 Jersey you get to see New York television  
10 stations. Now, there is no avoiding it. So  
11 everybody in New Jersey knew about NYNEX and  
12 everybody in New York City knew about Bell  
13 Atlantic. I don't think we have that here,  
14 so I don't think the degree to which Bell  
15 Atlantic has a brand name is much in  
16 Kentucky, certainly not as much as it was for  
17 the New York and New Jersey case. So, bottom  
18 line on it doesn't hurt competition, I think  
19 we don't have the three main elements that a  
20 firm needs to successfully compete which is  
21 why Bell Atlantic, probably correctly, never  
22 thought of it. Those, by the way, are things  
23 that other carriers do have. The long  
24 distance carriers all have customer

1 relationships in Kentucky. AT&T, MCI and  
2 Sprint among them must have roughly 90% of  
3 the households in GTE territory. I don't  
4 know that as a fact, but that is just roughly  
5 their national market share. So, they have  
6 customer relationships already with all of  
7 these people. Throw in the cellular  
8 carriers. They have customer relationships  
9 with half the households. Throw in the cable  
10 companies, now, they have customer  
11 relationships and facilities with 40% to 50%  
12 of the households. They are in a much better  
13 position to enter than is any local exchange  
14 carrier, even one that is contiguous as Bell  
15 Atlantic is here. That is why I don't think  
16 there is any reduction in potential  
17 competition from the merger.

18 COMMISSIONER GILLIS:

19 And I agree with all of that. But getting back  
20 to my question and my question was how does it  
21 enhance?

22 A Oh, enhance. Well, again I would say in two  
23 ways. It makes a better long distance  
24 competitor. It is very hard to be a long



1 distance competitor, you need a national  
2 platform, you've got to compete against  
3 global carriers and they are big economies of  
4 scale. There are a lot of competitors,  
5 mostly resellers, but the economics of resale  
6 as well as the economics of building your own  
7 network and filling it up mean that the  
8 bigger you are the more likely you are to  
9 succeed. And for long distance, the  
10 combination of Bell Atlantic and GTE means  
11 they are going to be a bigger long distance  
12 player. For local service the enhancement of  
13 competition I guess the answer I gave earlier  
14 they were kind of two quick things, one was  
15 by combining in the long run, there will be  
16 fewer interfaces that CLECs have to  
17 negotiate. They will be the same in the long  
18 run presumably for Bell Atlantic and for GTE.  
19 And the second is, whether it enhances  
20 competition or not, if it brings the benefits  
21 of competition, you know, lower prices, lower  
22 costs, thus lower prices. You know, that is  
23 a good thing too, independent of whether it  
24 does it because there are competitors out

1           there that force prices down, or whether it  
2           does it because costs come down because we  
3           only have one comptroller and those savings  
4           get passed through because GTE is rate of  
5           return regulated in Kentucky.

6           CHAIRMAN HELTON:

7           Following up on Commissioner Gillis' question and  
8           Mr. Wright's question on facilitating CLEC entry.  
9           You indicated that in the long run it was going to  
10          take a while to get the OSS systems, these billing  
11          systems and everything meshed together. So, if we  
12          are looking at bringing competition to the State  
13          of Kentucky, I didn't see anywhere in here where  
14          the two companies are going to honor each other's  
15          interconnection agreements. Did you see anything?

16          A       The short answer is no, I don't know.

17          CHAIRMAN HELTON:

18          Well, would you find that very difficult for them  
19          to do since they both have very different  
20          philosophies on interconnection and what they will  
21          provide?

22          A       I guess I would agree with you that they  
23          have--I wouldn't call it different  
24          philosophies, but different circumstances,

1           that is across the country GTE territory is  
2           quite different from Bell Atlantic territory.

3           CHAIRMAN HELTON:

4           Let me give you an example. UNEP is not a  
5           different in territory, it is a difference in  
6           philosophy.

7           A    I wasn't sure there was a difference, I  
8           thought both firms believed that they were  
9           not obliged to provide a UNE platform today.

10          CHAIRMAN HELTON:

11          I believe that Bell Atlantic has agreed to provide  
12          the UNE platform in New York as a condition of 271  
13          approval.

14          A    I believe you are right for a short--for a  
15          period of time. I believe it is a three year  
16          window or something like that. I'm not sure  
17          if that conflicts with GTE's philosophy, if a  
18          similar offer were made by a regulatory  
19          agency to GTE perhaps they would offer UNEP.

20          CHAIRMAN HELTON:

21          But GTE doesn't have to get 271 approval.

22          A    I understand.

23          CHAIRMAN HELTON:

24          So there is no incentive for them to do that.

1 A Well, there may be different incentives, but  
2 they won't be that one, you are correct  
3 there. In the long run, I mean when all of  
4 the dust settles down and the firm, the  
5 merged firm sort of optimizes what it does,  
6 to my understanding that it will be--well,  
7 it's a legal conclusion, I may be wrong. I  
8 would have thought that after the merger took  
9 place that the FCC's rules would require that  
10 whatever offer was made anywhere in GTE or  
11 Bell Atlantic that that offer would be  
12 available to others. But that is a legal  
13 statement which I think is right, but I'm not  
14 sure.

15 CHAIRMAN HELTON:

16 But we don't know that?

17 VICE CHAIRMAN HOLMES:

18 That's not stated.

19 CHAIRMAN HELTON:

20 But we don't know that the FCC is going to even  
21 approve this merger yet.

22 A Well, this has nothing to do really with the  
23 merger. My only question would be is the  
24 pick and choose rule in the most favorite

1 nation clause is that frozen as of the date  
2 of 1996 when the Act was passed or does that  
3 move forward, and I just don't know the  
4 answer to that.

5 CHAIRMAN HELTON:

6 Any more questions? Redirect?

7 MR. CARLISLE:

8 One moment. No redirect.

9 CHAIRMAN HELTON:

10 You may be excused.

11 A Thank you.

12 MR. FOSTER:

13 Call Mr. Peterson, John Peterson, and Mr. Carlisle  
14 will put it on.

15 (WITNESS DULY SWORN)

16  
17 The witness, JOHN PETERSON, having first been duly  
18 sworn, testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARLISLE:

21 Q Please state your name and business address for  
22 the record?

23 A John Peterson, my address is 600 Hidden  
24 Ridge, Irving, Texas.

1 Q Where are you employed and in what capacity?

2 A I'm employed with GT Network Services and my  
3 title is Director of Contract Compliance.

4 Q Mr. Peterson, did you prefile direct  
5 testimony in this proceeding consisting of 11  
6 pages of direct testimony?

7 A Yes, I did.

8 Q Do you have any changes, additions, or  
9 corrections to your direct testimony?

10 A No, I do not.

11 Q If I were to ask you the same questions today  
12 that are--were presented in your prefiled  
13 direct testimony, would your answers be the  
14 same?

15 A Yes, they would.

16 MR. CARLISLE:

17 Madam Chair, I would ask that Mr.  
18 Peterson's testimony be entered into the  
19 record as if given orally from the  
20 stand.

21 CHAIRMAN HELTON:

22 So ordered.

23 Q Mr. Peterson, did you also file rebuttal  
24 testimony in this proceeding consisting of

1 nine pages of testimony?

2 A Yes, I did.

3 Q Do you have any changes, additions or corrections  
4 to that testimony?

5 A No, I don't.

6 Q If I were to ask you the same questions today that  
7 are contained in your rebuttal testimony, would  
8 your answers be the same?

9 A Yes, they would.

10 MR. CARLISLE:

11 Madam Chair, I would ask that Mr.  
12 Peterson's rebuttal testimony be entered  
13 into the record as if given orally from  
14 the stand.

15 CHAIRMAN HELTON:

16 So ordered.

17 MR. CARLISLE:

18 The witness is available for cross.

19 CHAIRMAN HELTON:

20 Mr. Atkinson?

21 MR. ATKINSON:

22 Thank you Madam Chairman.  
23  
24

1 CROSS EXAMINATION

2 BY MR. ATKINSON:

3 Q Good afternoon Mr. Peterson.

4 A Good afternoon.

5 Q In what states besides Kentucky, I guess now  
6 twice, that you have entered an appearance here in  
7 Kentucky merger proceedings, but in what other  
8 proceedings have you testified in or filed  
9 testimony on behalf of the group of GTE/Bell  
10 Atlantic merger?

11 A Iowa, Virginia, California and I guess a  
12 reappearance here.

13 Q Okay. Let me direct you to page two of your  
14 rebuttal, lines three to five. Are you with  
15 me, Mr. Peterson?

16 A Yes, I am.

17 Q There you state I would note that Sprint does  
18 not have an interconnection agreement GTE in  
19 Kentucky nor has it given any indication that  
20 it is interested in entering GTE's local  
21 markets in Kentucky; is that a correct  
22 reading?

23 A Yes, that is what it says.

24 Q Would you accept, subject to check, Mr.



1 Peterson that Sprint filed an initial CLEC  
2 tariff with the Kentucky Commission on July  
3 20, 1999?

4 A That is certainly a possibility, yes, a very  
5 recent event.

6 Q Let's talk about some not so recent events,  
7 Mr. Peterson.

8 MR. ATKINSON:

9 Madam Chairman, I'd like to mark for  
10 identification the next two Sprint  
11 hearing exhibits of which I believe will  
12 be Sprint 1 and 2.

13 CHAIRMAN HELTON:

14 So ordered.

15 MR. ATKINSON:

16 May I approach the witness?

17 CHAIRMAN HELTON:

18 Sure.

19 MR. ATKINSON:

20 If we could, Madam Chairman, I'd like  
21 them marked, the earlier letter, the  
22 March 8 letter as Sprint Hearing Exhibit  
23 1, and the August 6, 1999 letter as  
24 Sprint Hearing Exhibit 2.

1 Q Looking at the March 8 letter Mr. Peterson I  
2 assume that you were not aware of the current  
3 status of this Sprint GTE negotiations for  
4 Kentucky when you filed your testimony, you  
5 weren't aware of the March 8 opening of  
6 negotiations?

7 A Yes, I was aware.

8 Q You were aware?

9 A Uh-huh.

10 Q You don't consider that as an indication of  
11 interest in Kentucky?

12 A Not necessarily. I could have produced a  
13 letter that would have been dated back in  
14 April of '96 which was a request for Sprint  
15 to negotiate with GTE on 28 states including  
16 Kentucky. And Sprint still isn't in business  
17 here in Kentucky. So producing a letter  
18 requesting negotiations doesn't necessarily  
19 indicate that Sprint still has a serious  
20 interest in doing business here in Kentucky.

21 Q So asking for negotiations when you are not  
22 really serious about it, that sounds like bad  
23 faith to me, Mr. Peterson; is that what you  
24 are saying?

1 A No, I'm not suggesting that, I'm just saying  
2 that based on the history with Sprint it  
3 doesn't necessarily indicate a strong  
4 interest on Sprint's part.

5 Q How about the 252(i) election letter which  
6 will be Sprint Hearing Exhibit 2, the August  
7 6 letter, is that a strong enough indication  
8 of interest for you Mr. Peterson?

9 A Yes, I guess I think so. But by the same  
10 token it was interesting just in the trend of  
11 events here, because at about the same time  
12 Sprint made the election for a 252(i), we  
13 were also notified that of your initial  
14 request for negotiations had been withdrawn  
15 and that you wish to restart the clock again,  
16 and that was like on August 9. So, it really  
17 isn't a clear indication of what Sprint's  
18 strategy is.

19 Q In your opinion Mr. Peterson?

20 A It's my opinion. I certainly don't have  
21 knowledge of Sprint's business plans.

22 CHAIRMAN HELTON:

23 Mr. Peterson, are you saying that there  
24 is letter subsequent to this in which

1 Sprint withdrew its request?

2 A They withdrew the request and then really  
3 reinitiated another request. And the reason  
4 for that would be that, well, under the Act  
5 the parties have like 135 days to negotiate,  
6 and so given that the original request was in  
7 March the clock would be very close to  
8 expiring and so we expect the strategy is  
9 that perhaps the 252(i) approach is used for  
10 a period of time and Sprint will continue to  
11 negotiate with a new clock to substitute for  
12 that 252(i), a presumption on my part.

13 Q Mr. Peterson, have you got Sprint Hearing  
14 Exhibit 1 close by, March 8, 1999 letter?

15 A Yes, I do.

16 Q Now under Section 252(e) of the Act I believe  
17 that the date that negotiations start is the  
18 date that GTE would have received this  
19 letter. And if it was sent by overnight  
20 delivery that would have been the next day,  
21 March 9, 1999?

22 A That's correct.

23 Q Would you accept, subject to check, that 160 days  
24 from March 9, 1999 is August 16, 1999?

1 A I can accept that subject to check.

2 Q In prior to that August 16 expiration date is  
3 a 160 day window Sprint filed this 252(i)  
4 election letter in Kentucky, notifying  
5 clearly, of what its intentions are in  
6 Kentucky?

7 A That's the course of events, yes. But I  
8 think it is just worthy to note that Sprint  
9 as well as other carriers has a number of  
10 options in terms of getting in the business  
11 in Kentucky. We have 40 effective, 50  
12 effective agreements now in Kentucky and if--  
13 it would seem like that if Sprint was really  
14 serious in escalating their plans to move  
15 into Kentucky there were vehicles already  
16 available to Sprint via the 252(i) process to  
17 initiate that action.

18 CHAIRMAN HELTON:

19 Mr. Peterson, are you amending your  
20 testimony, your testimony only  
21 represents 47 interconnection  
22 agreements, you said 50?

23 A Well, it is 50 today, it was 47, you know,  
24 constantly having new ones adopted and

1 approved this Commission.

2 Q We'll move on for the time being Mr.  
3 Peterson. Since we were discussing 252(i),  
4 why don't we turn to page three of your  
5 direct testimony where you state that under  
6 Section 252(i) of the Act the terms of the  
7 Commission-approved agreement are available  
8 to any new entry; is that correct?

9 A That's correct.

10 Q Are you aware that the AT&T, GTE agreement  
11 that Sprint refers to in this August 6, 1999,  
12 the 252(i) election letter was just very  
13 recently approved by the Commission?

14 A Yes, I'm aware of that.

15 Q To your knowledge were the terms and  
16 conditions of the AT&T/GTE interconnection  
17 agreement would they be available to other  
18 CLECs such as Sprint through Section 252(i)  
19 election?

20 A Sprint has been notified. In fact, we would  
21 have--Mr. Munsell would have sent a letter  
22 back to Sprint on August 9 that is,  
23 basically, a draft of--in response to your  
24 August 6 letter, that, basically, is our

1 standard 252(i) adoption letter. And we  
2 submitted it to Sprint for your review and  
3 input prior to filing it with the Commission.

4 Q Yes. Mr. Peterson, and I guess this is  
5 appropriate to state for the record, that we  
6 didn't feel it was appropriate to submit a  
7 draft letter to the Commission so--we have  
8 received a draft, and we were supposed to--we  
9 suggested a change to it and just state for  
10 the record that GTE would present a revised  
11 letter I believe sometime next week?

12 A That is correct.

13 Q Now, your direct testimony purports to  
14 demonstrate that GTE has opened up its local  
15 markets both nationally and in Kentucky. And  
16 you mentioned the 47--now, I guess it is 50--  
17 interconnection agreements that are currently  
18 in effect in Kentucky; is that correct?

19 A That's correct.

20 Q Now, you testified in the March hearing in  
21 connection with a merger application filed by GTE  
22 and Bell Atlantic, do you recall how many local  
23 exchange customers you said in the March hearing  
24 were in Kentucky at that time?

1 A Local exchange customers that GTE serves or--

2 Q Yes, I believe you were asked how many  
3 competitive local exchange customers to the  
4 47, now 50, entities have in Kentucky?

5 A I'm not clear of your question.

6 Q Okay, let me restate the question. As a  
7 matter of fact, may I approach the witness?

8 CHAIRMAN HELTON:

9 Yes.

10 Q I believe I had set before Mr. Peterson the  
11 correct page of the testimony where I believe  
12 he responded to a Commissioner's question, as  
13 to how many customers the CLECs that have  
14 interconnection agreements in Kentucky and  
15 that are currently operating in Kentucky have  
16 at the time of the March hearings were held.  
17 Have I correctly portrayed that excerpt from  
18 the transcript Mr. Peterson? Do you want to  
19 take a minute to look at it or--

20 A I'm not sure what your question is. Do you  
21 have a question?

22 Q Okay. Well, do you see in the March  
23 transcripts at page 169, I believe you  
24 responded that there were 2,800 resold lines



1 in Kentucky at the time, do you recall that?

2 A That's correct.

3 Q And GTE has approximately, I guess, now it is  
4 590 access--thousand access lines in  
5 Kentucky; is that correct?

6 A Subject to check, yes, that's the approximate  
7 number.

8 Q Are you aware of what the current number of resold  
9 was that GTE has provided to CLECs in Kentucky,  
10 has it altered?

11 A Yes, it's grown fairly substantially in a  
12 fairly short period of time. We now have,  
13 and this is as of June 30, we have 2,673  
14 residential wholesale lines and 2,251  
15 business lines, making up a total of 4,923  
16 wholesale resold lines. And also just to  
17 update the record because the answer in the  
18 previous transcript also indicates that there  
19 were 40 UNE loops, there are now 101 UNE  
20 loops.

21 Q Mr. Peterson, at 169 I believe the number was  
22 47 in March, just to clarify the record; is  
23 that right, it's on the same page 169?

24 A If that's not what I said I apologize.

1 Q You said 40.

2 A Okay, 47 it is now 101.

3 Q How many physical collocation arrangements has GTE  
4 provided to CLECs to date in Kentucky?

5 A Subject to check, because I don't have that  
6 with me, but I believe two in Lexington. And  
7 that was actually file--some details on the  
8 collocation was actually filed as a result of  
9 the last hearing.

10 Q And do you have any figures on the virtual  
11 collocation arrangements?

12 A No, I don't.

13 Q Do you know if there are any virtual  
14 collocations arrangements?

15 A I don't believe that there are other than  
16 just the collocations in Lexington.

17 MR. ATKINSON:

18 One moment, please. I have no further  
19 questions, thank you Mr. Peterson.

20 CHAIRMAN HELTON:

21 Ms. Chevront?

22 MS. CHEVRONT:

23 No questions.

24

1 CHAIRMAN HELTON:

2 Mr. Willis.

3

4

CROSS EXAMINATION

5 BY MR. WILLIS:

6 Q On the interconnection agreements in Kentucky, are  
7 you personally involved with these?

8 A Where I get personally involved is after  
9 negotiations are completed and contracts are  
10 filed and approved, then I get involved from  
11 the standpoint of getting CLECs in business.  
12 But my personal involvement tends to be more  
13 in dealing with issues and disputes that  
14 arise that don't get settled other places.  
15 But I'm not directly involved in negotiation  
16 process today. That was a prior life.

17 Q Out of the 50 interconnection agreements  
18 which you say there are in Kentucky right  
19 now, do you have a feel for how long it takes  
20 from notification to GTE to the time the  
21 average one has been approved?

22 A From the time someone initiates negotiations?

23 Q Yes.

24 A To when it is approved, I'm sure someone

1 tracks that. What tends to happen is that  
2 because most of our contracts are negotiated  
3 and negotiations by their nature tend to get  
4 resolved near the deadline. So I would  
5 expect that most of our negotiations  
6 concludes shortly before 130 days, 135 days.  
7 And then, of course, that negotiated  
8 agreement would be submitted to the  
9 Commission for approval and the normal  
10 Commission approval process. So--

11 Q Do you consider the 50 interconnection  
12 agreements you have now, do you consider all  
13 those competitors to GTE in Kentucky?

14 A I don't--well, I'm in the wholesale side of  
15 the business. So, anybody that operates  
16 under contracts that I'm responsible for I  
17 view as customers. I also recognize that as  
18 customers they would compete with our retail  
19 arm of the business.

20 Q Out of the 50 how many are actually in  
21 operation in Kentucky right now if you know?

22 A I don't know. I don't know, I can't give you  
23 an exact number.

24 Q Now, you indicate two agreements are

1           currently pending approval from the  
2           Commission. Which two are those?

3       A     I'm sorry I don't have which two those are at  
4           the time this was filed.

5       Q     Are there still two pending, those same two?

6       A     I'm not sure. I looked last night at the  
7           list of effective agreements--and effective  
8           agreements when I would see them would be  
9           post Commission approval and there were 50 of  
10          them. So I can only suppose that since the  
11          filing of the testimony we had a couple of  
12          additional agreements approved by this  
13          Commission that have become effective.

14      Q     So, you don't know which two they would be  
15          though?

16      A     No, I can get that for you if you would like  
17          to, like me to get that.

18      Q     Of the 50 interconnection agreements which  
19          you have, which ones would you consider to be  
20          major competitors, any of them?

21      A     Could you clarify that for me in terms of  
22          what you mean by major competitors?

23      Q     Sprint, MCI, AT&T, the larger companies we  
24          normally think of when we think--

1 A Okay, AT&T is the only national like IXC/CLEC  
2 in that list of 50 at this point. Now, we  
3 have some, you know, regional players,  
4 regional national players in kind of a second  
5 tier, companies like ICG, East Byer, let me  
6 pull out a few here. Hyperion, we actually  
7 have right now nine comprehensive agreements  
8 which means those agreements kind of offer  
9 the spectrum of services, resell, unbundling,  
10 interconnection, and then 20 agreements that  
11 are for resell only.

12 Q You say the AT&T agreement is in effect right  
13 now?

14 A That is my understanding.

15 Q Do you know when it became effective?

16 A I believe it was just at the end of last  
17 month, like July 29 or 30.

18 Q Do you know how long it took?

19 A Well, I appeared before this Commission in  
20 the arbitration proceeding in August of '96.  
21 So, from that point in time and obviously  
22 AT&T would have initiated negotiations  
23 shortly after the Act. And there is a whole  
24 host of circumstances on both sides of the

1 table in terms of the length of time that  
2 passed. But one of the primary ones for AT&T  
3 is just the --their business plans, the  
4 markets that they are interested in.  
5 Because, for instance, in California we have  
6 had an effective agreement with AT&T in  
7 California since January of '97.

8 Q You indicate on page five that you spent 281  
9 million, opened three local wholesale ordering  
10 centers and employed more than 500 people to open  
11 this local markets. Would some of this apply to  
12 Kentucky?

13 A Yes, it would.

14 Q Which part of it?

15 A Well, pieces of all of it. I mean the three  
16 local ordering centers, obviously orders that  
17 were submitted for Kentucky or out of  
18 Kentucky would be serviced through one of  
19 those three ordering centers. A portion of  
20 the people that are dedicated to opening up  
21 GT's markets nation wide would also be  
22 involved in Kentucky.

23 Q How many interconnection agreements would GTE  
24 have throughout its entire area, total?

1 A I think I cover that in my direct testimony.

2 CHAIRMAN HELTON:

3 Eight hundred two.

4 A Eight hundred two and including those that are  
5 pending approval, 934. That would have been as of  
6 the date that this testimony was prepared.

7 Q Where are these wholesale, local wholesale  
8 ordering centers located?

9 A Durham, North Carolina; Fort Wayne, Indiana;  
10 and Coeur D'Alene, Idaho.

11 Q You indicated in your testimony on page six  
12 that you provide continuing support for CLEC  
13 once they are in operation.

14 A That's correct.

15 Q Have you had any complaints from CLECs about  
16 the support provided?

17 A We have had complaints from CLECs and I want  
18 to be clear and straight forward about that.  
19 But they are generally not in the area of the  
20 level of support provided in terms of getting  
21 into business, and the kind of help desk and  
22 the on line documentation that we have. The  
23 vast majority of the disputes that I,  
24 personally, end up dealing with are of an



1 operational nature. Bumps in the road, if  
2 you will, in terms of just the complexities  
3 of the new environment we are dealing with.  
4 Here in Kentucky though I believe there has  
5 only been--well, I'm only aware of one formal  
6 complaint that we have had since I've been  
7 involved. And that is with a wireless  
8 carrier over a compensation dispute.

9 Q You indicate at the top of page eight, that  
10 you have established integration teams for on  
11 site CLEC assistance?

12 A That's correct.

13 Q Are there any of those in Kentucky?

14 A No, the integration teams are based in  
15 Dallas. They are actually three teams and  
16 they are very willing and do travel  
17 extensively to go out to places where CLECs  
18 operate. They kind of try to get inside of  
19 their business, understand what their needs  
20 are, and tailor their presentation and help  
21 to that particular CLEC business strategy and  
22 operational needs.

23 MR. WILLIS:

24 Okay, thank you. I have no further

1 questions.

2 CHAIRMAN HELTON:

3 Mr. Peterson, going back to CLEC entry into the  
4 market, Mr. Willis asked you about your  
5 interconnection agreement with AT&T. Having been  
6 present for the arbitration, I can tell you it  
7 took place in either November or December of '96  
8 not August.

9 A I was on the road from August through  
10 November so I guess Kentucky was at the end.

11 CHAIRMAN HELTON:

12 You were the traveling circuit?

13 A Yes.

14 CHAIRMAN HELTON:

15 And we issued our Order on that and directed the  
16 parties to file their completed interconnection  
17 agreement with us and there was quite a bit of  
18 delay in a filed interconnection agreement. Once  
19 it was finally filed I believe there was quite a  
20 bit of delay in the signing of that agreement; is  
21 that not correct?

22 A That's correct.

23 CHAIRMAN HELTON:

24 And when AT&T did sign the agreement was it

1 voluntarily?

2 A AT&T, I'm not sure.

3 CHAIRMAN HELTON:

4 GTE, I'm sorry.

5 A No, it wouldn't have been voluntary.

6 CHAIRMAN HELTON:

7 Okay. And one of the benefits of this merger is  
8 supposed to be to increase competition and to  
9 facilitate CLEC entry into the market, so given  
10 that history what assurance does this Commission  
11 have that a CLEC entry is actually going to be  
12 facilitated by this merger?

13 A One of the reasons I'm here is because I'm in  
14 the implementation side of GTE's contracts.  
15 I'm not an attorney, so I have really no part  
16 of whether or not or no input really in terms  
17 of whether we sign agreements or not. My  
18 understanding is the reason we don't sign  
19 arbitrated agreements is we want to protect  
20 our legal rights. But my role in life when  
21 I'm at GTE is to see that we implement our  
22 interconnection agreements and do it under  
23 the law, that we comply, that we follow all  
24 Commission orders related to that. And I try

1 to demonstrate in my testimony a number of  
2 ways that we facilitate CLECs getting in  
3 business. So, to be more direct in answering  
4 your question, I mean the day before and the  
5 day after the merger really nothing changes  
6 from the standpoint of our commitment in  
7 terms of implementing interconnection  
8 agreements. We still--we are still subject  
9 to the Act, rules of the FCC, regulatory  
10 oversight of this Commission, all the  
11 agreements that are in effect the day before  
12 the Commission--day before the merger are  
13 still in effect and binding the day after.

14 CHAIRMAN HELTON:

15 Since you are on the wholesale side, if there are  
16 any discussions of the two companies in a merged  
17 company honoring each other's interconnection  
18 agreements, I would assume that you would have  
19 knowledge of that?

20 A Yes, I probably would. At this point those  
21 discussions haven't taken place in terms of  
22 kind of comparing agreements between Bell  
23 Atlantic and GTE. I know in phase one of our  
24 merger planning process we did talk about

1 some differences that we have in terms of  
2 collocation policy and interconnection  
3 policies and kind of did an inventory of  
4 those differences, but haven't engaged yet in  
5 the kind of policy discussion of where we  
6 take that.

7 CHAIRMAN HELTON:

8 Commissioner Gillis, Mr. Holmes?

9 VICE CHAIRMAN HOLMES:

10 I'm a little confused on just what is the status  
11 of the Sprint interconnection agreement that they  
12 have elected to accept the terms and conditions of  
13 AT&T/GTE, where does that stand now?

14 A Well, it is between the parties right now.  
15 We would have submitted a draft 252(i) letter  
16 to Sprint and we are working towards I think  
17 the middle of next week finalizing that  
18 letter which, then, would be filed with the  
19 Commission for your review and after your  
20 review, then an approval, Sprint would have  
21 an effective agreement that they could  
22 operate in in Kentucky.

23 CHAIRMAN HELTON:

24 Have you had other IXCs or CLECs ask to adopt the

1 AT&T agreement?

2 A Here in Kentucky?

3 CHAIRMAN HELTON:

4 Uh-huh.

5 A I'm not aware of that, but that certainly  
6 wouldn't surprise me.

7 CHAIRMAN HELTON:

8 Redirect?

9 MR. CARLISLE:

10 No redirect.

11 CHAIRMAN HELTON:

12 Mr. Atkinson?

13 MR. ATKINSON:

14 No recross.

15 CHAIRMAN HELTON:

16 Mr. Willis? You may be excused.

17 A Okay, thank you.

18 CHAIRMAN HELTON:

19 Mr. Foster?

20 MR. FOSTER:

21 We call Mr. Paul Shuell, please?

22 (WITNESS DULY SWORN)

23 The witness, PAUL SHUELL, having first been  
24 duly sworn, testified as follows:

1 DIRECT EXAMINATION

2 BY MR. CARLISLE:

3 Q Could you please state your name and business  
4 address for the record?

5 A My name is Paul Shuell, my address is 1255  
6 Corporate Drive, Irving, Texas.

7 Q Where are you employed and in what capacity?

8 A I'm employed by GTE and I'm the Vice  
9 President and Controller.

10 Q Mr. Shuell, did you prefile direct testimony  
11 in this proceeding consisting of 25 pages and  
12 four attachments?

13 A Yes, I did.

14 Q Do you have any changes, additions, or  
15 corrections to this testimony?

16 A No, I do not.

17 Q Were I to ask you the same questions today that  
18 are contained in your prefiled direct testimony,  
19 would the answers be the same?

20 A Yes, they would.

21 MR. CARLISLE:

22 Madam Chair, I would ask that Mr.  
23 Shuell's testimony be introduced into  
24 the record as if given orally from the

1 stand.

2 CHAIRMAN HELTON:

3 So ordered.

4 MR. CARLISLE:

5 The witness is available for cross-  
6 examination.

7 CHAIRMAN HELTON:

8 Mr. Hughes.

9

10 CROSS EXAMINATION

11 BY MR. HUGHES:

12 Q Mr. Shuell, on page four of your testimony on line  
13 16 you say prior to the announcement of a merger,  
14 representatives of the company got together and  
15 began to make some estimates. Do you know how  
16 much prior to the announcement that occurred?

17 A I became involved on the--approximately eight  
18 days or nine days prior to the announcement  
19 of the merger, which I believe was a Sunday,  
20 July 19.

21 Q Okay, is that--are you part of this group you  
22 are talking about here on page four?

23 A Yes, I am, sir.

24 Q Okay. You mentioned in your testimony that, I



1 believe it starts on page five and maybe goes over  
2 onto page six, that you looked at some comparable  
3 mergers to assist you in your analysis.

4 A That is correct.

5 Q What companies did you look at or what  
6 mergers did you look at?

7 A I looked at, obviously, the Bell/NYNEX  
8 merger. I looked at the SPC/PacTel merger  
9 and I looked at the proposed SPC/Ameritech  
10 merger.

11 Q Are the companies in those mergers comparable  
12 in size or comparable in other ways to the  
13 companies involved in this proposed merger?

14 A They are all within the same industry, I  
15 would say, you know, within a range of plus  
16 or minus 25%, okay they are all comparable in  
17 size.

18 Q Did you look at specific factors relative to  
19 those companies to see if there were  
20 comparisons that were appropriate to be made?

21 A What I looked at was the available public  
22 information at that time which was primarily  
23 as presented during their merger announcement  
24 that they had publicly to the shareholders

1 and to the investors of the companies. It  
2 was extremely high level.

3 Q All right. On page six you have three bullets  
4 there indicating the types of sources that you  
5 looked at and why you say you relied on your  
6 general understanding of the company's business  
7 activities, I take that to mean General Tel and  
8 Bell Atlantic or are you talking about telephone  
9 companies generally?

10 A I'm talking about total GTE and total Bell  
11 Atlantic as well as the functions of the  
12 organizations within those offices--within  
13 those two companies.

14 Q In those items I don't see anything where you  
15 say you looked at specific company financial  
16 data; did you?

17 A At that point in time I did not look at any  
18 specific information. This was prior to the  
19 announcement of the merger, so I had access  
20 to very little of the Bell information and  
21 virtually no access to the other merger side  
22 discussed earlier.

23 Q At any time during your preparation of the  
24 estimates did you have access to specific

1 General Telephone or Bell Atlantic financial  
2 information?

3 A After the announcement of the merger about  
4 the August, middle August time frame, August  
5 21 we commenced a team to--with  
6 representatives of both GTE and Bell  
7 Atlantic, three on each side, and they  
8 developed an observation on their  
9 recommendation for the estimated merger  
10 savings, as well as for capital savings.  
11 During that process they had access to all of  
12 1998 budget information. They reviewed the  
13 budget information in some level of detail  
14 for the two companies and determined what  
15 they thought the estimated merger savings  
16 would be, merger savings use would be. So,  
17 after the announcement of the merger, a  
18 substantial amount of detailed information  
19 was made available.

20 Q Yes. Okay, that was subsequent to the  
21 development of your estimate; is that  
22 correct?

23 A That is correct.

24 Q Okay. But as it turns out the estimate that

1           you prepared was the same estimate that the--  
2           was it the August 21 group--

3    A       That's correct.

4    Q       --came up with; is that correct?

5    A       I estimated a range, yes, and they, also,  
6           estimated a range for anticipated merger  
7           savings. The mix of it was slightly  
8           different than what I came forward with, but  
9           generally they opined on the overall number  
10          of savings.

11   Q       Did that group--did the August 21 group  
12          develop that number independent of your  
13          information or did they take what you had  
14          prepared and confirm it?

15   A       It was a combination of both. I did have  
16          discussions with the six members of the  
17          August 21 team. I explained to them,  
18          provided them the information I had available  
19          prior to the announcement of the merger at  
20          which point they went back and developed more  
21          detail and developed their own understanding  
22          based on their years and years of business  
23          experience in different aspects of different  
24          businesses, then--within GTE and Bell

1 Atlantic. For example, separate network  
2 services people, separate wireless people and  
3 so forth.

4 Q You talk about one of the things that you  
5 reviewed was savings projected in these other  
6 mergers. I believe that is on page six, line  
7 15, you say my aggregate estimate was based  
8 in significant part on my consideration of  
9 savings projected in other recent mergers?

10 A That is correct.

11 Q Did you make any effort to go back and confirm  
12 that those savings actually materialized?

13 A Well, most of those mergers at that point in  
14 time were not consummated, the only one that  
15 was was the Bell Atlantic and NYNEX, and I  
16 did go back at that point in time and review  
17 the information that was available, published  
18 in the Bell Atlantic report at that point.  
19 The other ones were in process.

20 Q On page seven of your testimony at the top  
21 you talk about considering the cost savings  
22 that would have accrued to General in spite  
23 of or regardless of the merger. What types  
24 of cost savings are you referring to there?

1 A I have been involved in the budget process  
2 and long term planning process of GTE and I  
3 was very knowledgeable about estimated  
4 reductions or reductions as percent of  
5 revenues that we had planned in the G and A  
6 area as well as within the information  
7 technology area. So, those are two areas  
8 that I knew we already had plans for  
9 reductions going forward into the future.

10 Q Subsequent to, I guess, the completion of  
11 your original estimate and the estimate by  
12 the August 21 group, have you gone back to  
13 try to see if your--or to update your  
14 estimate to see if it is still in the two  
15 billion dollar range?

16 A The direct answer is no I have not. This is  
17 an evolutionary process that is ongoing. We  
18 have eight merger teams that are chartered  
19 with identifying their estimated savings as  
20 well as estimated implementation costs going  
21 forward. So that is the next step from the  
22 step that I did pre-merger to the August 21  
23 team. Now, it is into the hands of the  
24 August--what you call the merger integration

1 teams.

2 Q Okay, on page nine, line 15, you talk about  
3 MITs will propose modifications in business  
4 practices and so forth that would generate  
5 cost savings. Have those modifications been  
6 determined or is it just an expectation that  
7 the MITs will propose those types of things?

8 A Yes, to both of those. It is, obviously, an  
9 expectation, okay, that's what their charter  
10 was, to determine the best practices and to  
11 make recommendations to senior management for  
12 adoption of best practices, either between  
13 GTE and Bell Atlantic or best of the best out  
14 there. So that was their charter. At the  
15 same time they have gone through and have  
16 done a substantial amount of detailed  
17 analysis as far as how each individual  
18 company operates, how we build customers, how  
19 we provision service to our customers, how we  
20 prepare plans, how we interact with our Board  
21 of Directors, how a substantial amount of day  
22 to day business practice information has been  
23 developed and documented today. As far as  
24 have all the best practices, has all the

1 policy decisions been made going forward, the  
2 answer to that is no, as Mr. Kissell  
3 explained this morning. That is still an  
4 ongoing process.

5 Q Have those cost savings associated with those  
6 types of proposals, or were those cost  
7 savings included in the two billion dollar  
8 savings estimate?

9 A I don't know if I understand your question?

10 Q Well, this says that the MITs will propose  
11 modifications that would generate cost  
12 savings and improve business practices. Now,  
13 were these things considered in the  
14 development of your two billion dollar  
15 savings?

16 A There was an expectation of the two billion  
17 dollars of savings that we would get it  
18 through--work taking place by these MIT teams  
19 to put forth delineation as far as how much  
20 of the two billion dollars, or whatever the  
21 number is, would be coming from elimination  
22 of duplicate activities or economies of scale  
23 or implementation of best practices. So,  
24 they are taking it down to the next level and



1 identifying what they believe the estimated  
2 savings are along with the estimated costs  
3 are. Again, I would anticipate that the way  
4 that I originally came up with the two  
5 billion dollars and the way the August 21  
6 team came up with the two billion dollars,  
7 there was going to be refinements to that,  
8 there was going to be plus and minuses on  
9 each individual line item.

10 Q Well, I guess the point I'm getting at, does  
11 the two billion dollar savings include these  
12 or are these savings over and above that  
13 estimate?

14 A No, I'm sorry, I misunderstood your question.

15 Q I probably wasn't clear on it?

16 A They include.

17 Q Okay.

18 CHAIRMAN HELTON:

19 Mr. Shuell, what would happen if the  
20 MITs greatly increased or decreased the  
21 amount of the savings that they expect?

22 A In either direction if it was material it  
23 would be disclosed to the investment  
24 community and to our shareholders in the form

1 of regulatory filings made to the FCC and  
2 others.

3 Q Look on page 11, you--beginning on line four you  
4 list three things, general types of cost saving  
5 opportunities and I think you may have just  
6 answered it, are there any specific areas related  
7 to any of these three general areas, redundant  
8 functions, economies of scale and business  
9 practices that you have identified?

10 A There have a lot--there have been--yes, there  
11 have been a lot of areas identified, whether  
12 they have been approved and ready for  
13 implementation is another question.

14 Q So there actually has been a process to  
15 determine what functions are redundant?

16 A Well, obviously, I mean, I am a Controller of  
17 GTE and Controller for Bell Atlantic, and you  
18 don't need two Controllers, so, I mean, that  
19 is an obvious one, and there are others like  
20 that.

21 Q You also say in that same answer that there  
22 are economies of scale. Have you done any  
23 study or made any effort to determine to what  
24 extent there will be economies of scale? For

1 example, is General Tel now buying in such a  
2 volume that when added to Bell Atlantic there  
3 won't be a substantial economy?

4 A One of the merger division teams is  
5 addressing that, that specific question that  
6 you asked. Although both companies are large  
7 and we do get obviously volume discounts on  
8 individual vendors we could leverage off that  
9 and decide on, you know, move them from one  
10 vendor to another vendor. For example,  
11 providing of paper supplies, and we may use  
12 one vendor and Bell Atlantic may use a  
13 different vendor. By going to the same  
14 vendor, increasing the purchasing power they  
15 will be able to generate economies.

16 Q Well, you say on page 17 at the top of the  
17 page that both companies, however, are  
18 already large and the opportunities for  
19 additional volume discounts are limited. So  
20 I'm just wondering if, in fact, there is a  
21 substantial economy of scale benefit that you  
22 have identified?

23 A If you look at the total purchases that we  
24 make and I'll exclude the capital for a

1 second because that is obviously significant,  
2 I mean we are approximately six billion  
3 dollars of other types of purchases that we  
4 have both combined companies. And we  
5 estimate approximately 20 million dollars of  
6 procurement savings as a result of economies  
7 of scale as well as the combination of the  
8 procurement department from the two  
9 companies. So, 200 million on to \$6.3  
10 billion is a relative number and, again, it  
11 would have been higher had we not been both  
12 purchasing at those higher discounts.

13 MR. HUGHES:

14 I think that is all.

15 CHAIRMAN HELTON:

16 Ms. Chevront?

17

18 CROSS EXAMINATION

19 BY MR. CHEVRONT:

20 Q Good afternoon.

21 A Good afternoon.

22 Q On page 10 of Mr. Griswold's testimony he  
23 states that the merger will not require GTE,  
24 Bell Atlantic, GTE South to incur any

1           indebtedness.

2    A       I'm sorry, any what?

3    Q       Any indebtedness?

4    A       Okay.

5    Q       From page 21 of your testimony on you seem to  
6           be talking about the cost of the merger. Am  
7           I reading this wrong?

8    A       I am talking about the implementation costs,  
9           that's correct.

10   Q       How can he say there is no indebtedness  
11           occurred is it because of the savings minus  
12           the cost is going to be greater?

13   A       The projections by the end of year three is  
14           exactly what you just stated, the savings--  
15           the ongoing savings will exceed the one time  
16           implementation costs.

17   Q       As Dr. Helton asked what--these are just  
18           estimates?

19   A       Yes, ma'am.

20   Q       What if you have grossly misestimated? You  
21           responded to her question that you are just going  
22           to disclose it.

23   A       Well--

24   Q       Well, my question basically is, and my concern,

1 and you may not be able to answer this, how  
2 do we know that you won't come back and ask  
3 for rate increases to pay for this merger?

4 A Let me answer it to the best of my ability.  
5 We, as combined management of GTE and Bell  
6 Atlantic committed to \$2 billion of savings  
7 and \$500 million of capital savings. It is  
8 being developed and put into the year 2000  
9 budgets for both companies. It is part of  
10 the compensation plans, the incentive  
11 programs for all employees to achieve this  
12 two billion dollars. The--my assumption of  
13 our inability to achieve two billion dollars  
14 is extremely remote.

15 MS. CHEUVRONT:

16 That's all.

17 CHAIRMAN HELTON:

18 Mr. Willis, Mr. Wright?

19 MR. WRIGHT:

20 Yes.

21  
22 CROSS EXAMINATION

23 BY MR. WRIGHT:

24 Q Mr. Shuell, your testimony centers totally around

1 the corporate level of cost savings in this  
2 merger; is that correct?

3 A Consolidated, yes, sir.

4 Q And in a summary type form I go through your  
5 testimony and see two billion merger cost savings;  
6 capital synergies of half billion dollars as pre-  
7 merger; telephone operations savings, 900 million;  
8 expense savings, 350 million; capital savings, 1.2  
9 billion in telephone operation savings. During  
10 this process anywhere, and I don't know that it  
11 would happen at the merger integration teams, has  
12 there ever been any consideration to flow back to  
13 any Kentucky consumer or rate payer on any of  
14 these savings, or has there been considered a rate  
15 reduction in Kentucky?

16 A I believe your best answer to--best to  
17 address that question to Mr. Blanchard as far  
18 as, you know, the estimated amounts and how  
19 it would, in your words, flow back to the  
20 ratepayers.

21 Q Okay, to your knowledge have you been a part  
22 of any of those discussions?

23 A The only discussions I've been part of is  
24 within the state of California as far as flow

1 back of merger savings to the ratepayers.

2 Q Were you in California talking about Kentucky  
3 or were you in California talking about  
4 California?

5 A I was in California talking about  
6 California.

7 Q Okay. You testified to the fact that after  
8 consummation of this merger that the  
9 companies will realize two billion in expense  
10 savings and .5 billion in capital synergies  
11 and will incur 1.8 billion in transaction  
12 costs; is that correct?

13 A That is correct.

14 Q All right, Schedule A2 has transaction costs  
15 of 215.5 million. Schedule A4 has a total  
16 implementation cost of 1.425 billion.

17 A Correct.

18 Q Added together this equates to 1.6405  
19 billion. What are the other costs that are  
20 not shown on these schedules that equate to  
21 1.8 billion?

22 A There are additional costs of the--there are  
23 two aspects of the costs. There is the  
24 merger implementation costs which is the



1 1.425 billion that is presented on Schedule  
2 A3, that is the implementation cost that we  
3 are going to incur post merger to generate  
4 the savings. In addition to that, there are  
5 transaction costs of \$215 million that are  
6 100% contributable to GTE. In addition,  
7 there is another 100--approximately \$116  
8 million that is directly attributable to Bell  
9 Atlantic of transaction costs.

10 Q Okay.

11 A So, you need to add all three pieces  
12 together.

13 Q Okay, got it, thank you. Yes, that is an  
14 interesting question, let me ask it from this  
15 standpoint. And I noticed this in the next  
16 witness's testimony, you are saying 215.5  
17 million in GTE costs.

18 A That's transaction costs.

19 Q Transaction costs and 160 million in Bell  
20 Atlantic transaction costs, what is the  
21 difference, why such a vast difference there?

22 A The difference has to do with the  
23 compensation agreements, okay, within the GTE  
24 compensation plans upon--for legal reasons

1 this is perceived to be a change of control,  
2 and based on the previously approved  
3 compensation plans that GTE had in place for  
4 numerous individuals, a change of control, in  
5 effect, we could use the word "triggered,"  
6 acceleration of the payouts, okay, under  
7 proposed compensation arrangements that  
8 employees have. It's the timing--

9 Q Based upon early retirement?

10 A Excuse me.

11 Q Early retirement?

12 A It's not really.

13 CHAIRMAN HELTON:

14 Are you saying golden parachutes, Mr.  
15 Shuell?

16 A I am saying, no, golden parachutes to my  
17 understanding is for people who leave. This  
18 is not for people who leave, this is people  
19 for ongoing plans that we had that, in case  
20 of a change of control, that acceleration of  
21 vesting--well, stock options for example,  
22 would be paid to these executives and others  
23 as well, not only just the executives.  
24

1 MR. WRIGHT:

2 I think that's all, thank you.

3 CHAIRMAN HELTON:

4 Mr. Shuell, going back to verifying that you are  
5 looking at other merger costs in order to  
6 determine what you have bought, merger savings,  
7 I'm sorry, what you all came up with as a figure  
8 for the merger savings on this. You indicated  
9 that the only merger that you looked at that was  
10 at the point of completion--consummation was the  
11 Bell Atlantic/NYNEX, and yet I have heard no one  
12 say that anybody has tracked the savings in that  
13 merger yet.

14 A That merger savings are being tracked, Your  
15 Honor. There is information that is  
16 available and published in the Bell Atlantic  
17 Annual Report. There are two things, one is  
18 there is a statement from its Chairman and  
19 the Chief Executive Officer, Ivan Seidenberg  
20 saying that the merger savings are on track.  
21 And at that point in time they were  
22 projecting \$1.1 billion in merger savings.  
23 In addition to that in the footnotes to the  
24 financial statements there is supplemental

1 information that disclosed that as of  
2 December 1998, which is approximately 15  
3 months into the merger that savings accrued  
4 to date are approximately 460 million  
5 dollars. So on a consolidated level those  
6 savings are being tracked as well as the cost  
7 associated with those savings. Whether it  
8 comes down to Mr. Bone, as far as, you know,  
9 through all the wireless and an allocation to  
10 different business units, I do not know how  
11 they treat that, but on a high level, you  
12 know, they are definitely tracking savings.

13 CHAIRMAN HELTON:

14 Redirect?

15 MR. CARLISLE:

16 We don't have any.

17 CHAIRMAN HELTON:

18 Mr. Atkinson? Ms. Cheuvront?

19 MR. ATKINSON:

20 No questions.

21 CHAIRMAN HELTON:

22 Mr. Wright, do you have anything else?

23 MR. WRIGHT:

24 No.

1 CHAIRMAN HELTON:

2 You may be excused. Let's take a ten minute  
3 break.

4 (OFF THE RECORD)

5 MR. FOSTER:

6 Mr. Steven Shore please.

7 (WITNESS DULY SWORN)

8 MR. FOSTER:

9 Mr. Carlisle will take care of this.

10

11 The witness, STEVEN L. SHORE, having first  
12 been duly sworn, testified as follows:

13 DIRECT EXAMINATION

14 BY MR. CARLISLE:

15 Q Mr. Shore, please state your name and business  
16 address for the record.

17 A My name is Steven L. Shore, my business  
18 address is 1420 East Rochelle, Irving, Texas  
19 75039.

20 Q What is your position and who is your  
21 employer?

22 A I'm employed by GTE Service Corporation as  
23 Assistant Controller-Wire Line Operations.

24 Q Mr. Shore did you prefile direct testimony in

1           this proceeding consisting of 16 pages and  
2           five attachments?

3    A       Yes, sir, I did.

4    Q       Do you have any changes, additions or  
5           corrections to this testimony?

6    A       No, I do not.

7    Q       Were I to ask you these same questions today  
8           that are contained in your prefiled direct  
9           testimony would your answers be the same?

10   A       Yes, they would.

11           MR. CARLISLE:

12                   Madam Chair, I'd like to ask that Mr.  
13                   Shore's testimony be entered into the  
14                   record as if given orally on the stand.

15           CHAIRMAN HELTON:

16                   So ordered.

17           MR. CARLISLE:

18                   The witness is available for cross-  
19                   examination.

20           CHAIRMAN HELTON:

21                   Mr. Atkinson?

22           MR. ATKINSON:

23                   Thank you Madam Chair.

24

1 CROSS EXAMINATION

2 BY MR. ATKINSON:

3 Q Good afternoon Mr. Shore.

4 A Good afternoon, sir.

5 Q Let me start by directing you to page five of  
6 your prefiled direct testimony. And there  
7 you state, I believe starting at line 14, you  
8 state that the starting point of your  
9 analysis was the summary of aggregate  
10 forecasted merger savings and total merger  
11 costs as presented by Mr. Shuell; is that  
12 correct?

13 A Yes, sir.

14 Q So, is it fair to say that your analysis is  
15 substantially dependent on Mr. Shuell's  
16 forecast of merger savings and total merger  
17 costs?

18 A Yes, that's correct.

19 Q And to the extent that Mr. Shuell's forecast  
20 of aggregate merger savings and costs are  
21 inaccurate, your analysis of the Kentucky  
22 portion of the merger savings and costs would  
23 likewise be inaccurate?

24 A Inasmuch as it is an allocation using the

1 starting point, which were Mr. Shuell's  
2 numbers, yes. If there was a change in that  
3 number it would change the amount allocable  
4 to the State of Kentucky.

5 Q Now, we have already discussed the fact that,  
6 I guess, your reliance on Mr. Shuell's  
7 forecast, did you rely on any other  
8 assumptions in preparing your analysis?

9 A Not in terms of the two billion dollars of  
10 synergy savings or transaction costs or  
11 implementation costs, no.

12 Q Now, you do use or you mention some  
13 assumptions on page 15, lines--starting at  
14 line 19 of your testimony. And these are  
15 assumptions that the savings would be  
16 achievable and full during the third year  
17 after the merger with 1/3 of the savings  
18 realized in the first year, and 2/3 in the  
19 second year. Are there any other assumptions  
20 that you can think of that you used to base  
21 your analysis on?

22 A That wasn't really an assumption on my part,  
23 that was relying on the information provided  
24 by Mr. Shuell in his analysis.



1 Q Okay. So, it is not a term of our  
2 assumption, you are using assumed, I guess,  
3 in the regular--

4 A I'm using the savings realization percentages  
5 that were recommended by Mr. Shuell.

6 Q Okay. Let me direct you to page six of your  
7 direct testimony, beginning on line three, you  
8 state that you consulted with members of the Bell  
9 Atlantic financial organization to confirm that,  
10 in their view, the cost allocation factors that  
11 you chose were accurate?

12 A Yes, sir.

13 Q I'd like to ask you since you have been in  
14 contact with the Bell Atlantic financial  
15 organization, are you aware of whether Bell  
16 Atlantic has performed a similar analysis for  
17 determining a state specific portion of the  
18 estimated aggregate merger savings for any  
19 Bell Atlantic state?

20 A I know they have done it for Pennsylvania and  
21 I believe Virginia.

22 Q And are you familiar enough with those analyses to  
23 discuss them?

24 A At a fairly high level, yes.

1 Q Well, let me just ask you in what ways do  
2 those analyses that were done by the finance  
3 group of Bell Atlantic in Pennsylvania and  
4 Virginia, in what ways do they differ, if  
5 any, from the analysis that you conducted in  
6 connection with identifying Kentucky specific  
7 merger studies?

8 MR. CARLISLE:

9 I think we are going to interpose an  
10 objection at this point, absent some  
11 explanation of why those studies in  
12 Pennsylvania and Virginia are relevant  
13 to Mr. Shore's testimony here in  
14 Kentucky?

15 CHAIRMAN HELTON:

16 Can you explain that Mr. Atkinson?

17 MR. ATKINSON:

18 Well, I believe another witness today,  
19 and it may have been Mr. Bone, talked  
20 about, I believe Mr. Gillis asked him a  
21 question, about whether similar  
22 analyses had been conducted for Bell  
23 Atlantic states and I don't know if I've  
24 got the witness or the commissioner

1 right, but I was trying to follow up on  
2 that line of cross to see if GTE had  
3 relied on the Bell Atlantic states  
4 specific analyses in conducting their  
5 analysis?

6 MR. CARLISLE:

7 Well, if that is the question it goes to  
8 what he relied on in this proceeding.  
9 So, if you want to ask that question,  
10 that is fine.

11 MR. ATKINSON:

12 Then the question I asked counsel was  
13 part of that question, in what ways do  
14 the state specific Bell Atlantic  
15 analyses differ from the analyses that  
16 was conducted by Mr. Shore.

17 CHAIRMAN HELTON:

18 Mr. Shore, can you answer that question?

19 A Yes, I can. The methodologies used to the  
20 best of my knowledge, for both Virginia and  
21 Pennsylvania, were the same methodologies  
22 that I used here in Kentucky.

23 Q To the best of your knowledge, okay. And you  
24 were familiar with these state specific

1 analyses for Pennsylvania or Virginia prior  
2 to conducting your analysis?

3 A Based upon the way the timing worked, I saw  
4 the, as I recall, the Pennsylvania analysis  
5 before I completed Kentucky but not the  
6 Virginia one.

7 Q Okay. Let me direct you to your discussion  
8 of that part of your analysis that deals or  
9 attempts to deal with best practices and I  
10 believe it starts on page eight of your  
11 prefiled direct testimony.

12 A I have that.

13 Q Now, if I'm reading your testimony correctly  
14 from page eight, line 12 through page nine,  
15 line 10, you seem to be saying that there  
16 would be an additional portion of merger  
17 savings that would be excluded from your  
18 analysis and that would be the best practices  
19 that were identifiable and I guess  
20 quantifiable, you would identify those best  
21 practices and, I guess, try to quantify them  
22 out attributable to the best practices and  
23 then exclude them from your analysis; is that  
24 correct?

1 A Yes, that's what I'm saying on the basis that  
2 some of those best practices may have been  
3 implementable without the merger and,  
4 therefore, it would be improper to include  
5 those costs as merger savings if they could  
6 have been done absent the merger. And I go  
7 on to say that since we could not quantify  
8 the portion of merger savings that were  
9 applicable to best practices we didn't  
10 exclude any--I didn't exclude anything from  
11 Mr. Shuell's numbers in terms of calculating  
12 the Kentucky savings.

13 Q Were you present for Mr. Kissell's testimony  
14 this morning?

15 A Yes, sir, I was.

16 Q And you heard him mention, and I believe he  
17 said Bell Atlantic intraLATA marketing  
18 practices, he said Bell Atlantic marketing  
19 practices, I think he said intraLATA  
20 marketing practices as a specifically  
21 identified best practice, do you recall that?

22 A Yes, I do.

23 Q Was I correct in saying intraLATA marketing  
24 practices?

1 A To the best of my recollection I believe he  
2 said intraLATA, yes, sir.

3 Q And it appears from the discussion on pages  
4 eight through nine of your testimony that you  
5 were unaware that any best practice had been  
6 specifically identified or I assume that you  
7 would have tried to identify it and quantify  
8 an amount that would have been excluded from  
9 your analysis; is that correct?

10 A That would be true. I should point out  
11 though that the issue that Mr. Kissell was  
12 referring to this morning was a revenue  
13 enhancement issue and not a cost issue.

14 Q All right. But it is true that you would  
15 have to alter your analysis to count for this  
16 identified best practice?

17 A No, that is not true, because it has, to the  
18 best of my knowledge, it has nothing to do  
19 with the cost.

20 Q I want to try one more time, Mr. Shore, if  
21 you can walk me through that one more time,  
22 can you explain to me exactly why that would  
23 not affect your analysis that best practice  
24 was, I believe you said, because it doesn't

1 impact your cost side?

2 A The--what I tried to say was that the best  
3 practice that you are referring to had to do  
4 with the revenue synergy, not a cost synergy.  
5 In my analysis I have only taken--I have  
6 taken cost synergies and allocated them down  
7 to the Kentucky jurisdiction.

8 Q And you have not looked at--therefore, your  
9 analysis would never consider best practices  
10 that impacted on the revenue side?

11 A That is correct.

12 Q All right.

13 A I guess I should add to that unless there was  
14 a cost component associated with that best  
15 practice.

16 Q So, what you are saying is that if a best practice  
17 impacted both the cost side and the revenue side,  
18 then you would have to take, at least, account of  
19 the portion that impacted the cost side?

20 A You would if you were going to exclude, which  
21 I did not here in this case.

22 Q All right, but you would have excluded a best  
23 practice that you were aware of that impacted  
24 the cost side, I think I understand.

1 A If it could be implemented absent the merger.

2 Q Let me direct you to page three of your  
3 prefiled direct testimony, down close, I  
4 guess, to the middle of the page, line 12.  
5 You said that your analysis was based on  
6 generally accepted cost allocation procedures  
7 and are these GTE generally accepted cost  
8 allocation procedures or industry generally  
9 accepted cost allocation procedures?

10 A Certainly, specifically, they are GTE  
11 allocation procedures, they are--while I  
12 don't know specifically there are other  
13 companies that use very similar methods of  
14 cost allocations. These cost allocation  
15 procedures have been used in the reporting to  
16 this Commission the remainder of the 28  
17 states that GT operates in for several years.

18 MR. ATKINSON:

19 Thank you Mr. Shore, I have no further  
20 questions.

21 CHAIRMAN HELTON:

22 Ms. Chevront?

23 MS. CHEVRONT:

24 No questions.



1 CHAIRMAN HELTON:

2 Mr. Wright.

3

4

CROSS EXAMINATION

5 BY MR. WRIGHT:

6 Q Mr. Shore, can you just briefly state your five  
7 points of your analysis in your conclusion?

8 A I'm sorry, I didn't hear the last part of  
9 your question.

10 Q Your conclusions from that, the net savings  
11 attributable to GTE on a yearly basis?

12 A I'm not sure I understand your question.

13 CHAIRMAN HELTON:

14 Speak a little louder too.

15 Q I'm sorry. You have five basic steps you  
16 have completed in your analysis.

17 A Yes, sir.

18 Q All I'm asking is just briefly state what they  
19 are?

20 A Okay. I'd be happy to do that. The best  
21 place to start would be Schedule B1. The  
22 numbers on that schedule are in the first  
23 column of numbers are pulled forward from Mr.  
24 Shuell's analysis that would be on Schedule

1 Al in his direct testimony. The 30% factor,  
2 which is under the percent GTE column is a  
3 factor developed by myself and it uses the  
4 big--what is known as the big three  
5 allocator, which is plant specific, plant  
6 nonspecific and customer operations expense  
7 for both GTE and Bell Atlantic, added  
8 together and the GTE portion of that total  
9 was 30%. And you can see that that  
10 allocation factor is used for all the  
11 telephone operations expense, you see a  
12 different allocation factor when you--on line  
13 eight regarding corporate G and A is 42%. That  
14 factor is developed by using an operating  
15 expense and taxes factor for the consolidated  
16 entities. And in that case GTE was 42% of  
17 the total. The 30% was also used for the  
18 capital synergies, the 30% was also used for  
19 the telephone operations implementation cost  
20 shown on line 12, and the 42% the G and A factor  
21 was used for the corporate G and A implementation  
22 cost as shown on line 13. The 100% factor on  
23 line 11 is used because the \$215 million, as  
24 Mr. Shuell previously testified to, as GTE

1           only cost. Schedule 2, takes the numbers  
2           calculated, or I should say Schedule B2 takes  
3           the numbers calculated on Schedule B1 and in  
4           the first case allocates the GTE savings and  
5           cost down to GTE network services or GTE  
6           telephone operations. In the case of lines  
7           one through seven that factor is 100% because  
8           those costs were specifically identified to  
9           be telephone operations cost. The corporate  
10          G and A factor is--which is 78% is shown in line  
11          nine is developed based upon the history of  
12          allocations of corporate G and A to GTE's  
13          subsidiaries, and that history is based upon  
14          direct cost being directly billed to the  
15          appropriate subsidiaries and in time studies  
16          that are done on an annual basis as I  
17          described in my testimony. Capital synergies  
18          again being 100% just as the telephone costs  
19          were above, the merger transaction cost, I  
20          use that G and A factor because all of those  
21          costs would not be applicable to telephone  
22          operations. Same with the corporate G and A on  
23          line 14. The implementation cost for  
24          telephone operations would be a 100%

1 allocable to GTE network services. That set  
2 of factors multiplied times the dollars in  
3 column A give us the numbers shown in column  
4 C.

5 CHAIRMAN HELTON:

6 Can we stop just a second and determine  
7 where that ringing is coming from. We  
8 get a feedback from his mike or maybe  
9 over here.

10 A Are we ready to proceed?

11 CHAIRMAN HELTON:

12 Yes.

13 A Thank you. Column D represents an allocation  
14 factor to allocate the expenses that have  
15 been calculated for GTE network services as a  
16 whole down to the State of Kentucky. And  
17 that factor is also a big three allocation  
18 factor that I described just a moment ago  
19 only it is looking at the GTE properties only  
20 as a percent of total. And Kentucky is 2.79%  
21 in that computation. Again on line nine, the  
22 corporate G and A was done using an operating  
23 expense and tax factor and that results in a  
24 percentage of 2.75%. Likewise, for capital

1 synergies and telephone operations  
2 implementation costs, the 2.79% factor was  
3 used and the 2.75% factor for the transaction  
4 costs and the corporate G and A. And those  
5 costs multiplied by, or those percentages  
6 multiplied by the items in Column C give us  
7 the GTE South Kentucky savings. Schedule B3,  
8 is an analysis of the carrying charges or  
9 revenue requirement if you will of associated  
10 with the capital synergies that Mr. Shuell  
11 had talked about. That--is that a  
12 computation you would like me to go through  
13 in detail or --

14 Q I think not on that one.

15 A Okay. And then Schedule B4 what we show at  
16 the top is total GTE South Kentucky as a  
17 100%. The regulated portion of GTE South  
18 Kentucky is 82.4% and that information was  
19 derived from the annual report and the  
20 quarterly surveillance reports filed with  
21 this Commission. And the intrastate portion  
22 of the regulated was 76.25% derived from the  
23 same documents I just mentioned to create a  
24 GTE South Kentucky regulated intrastate

1 factor of 62.86%. The 62.86% was applied to  
2 the numbers that were calculated on Schedules  
3 B2 and B3 resulting in the regulated  
4 intrastate savings in cost as shown in Column  
5 B of Schedule B4. The cost in Column B,  
6 Schedule B4, are carried forward to Schedule  
7 B5 and you will--and they have been divided  
8 into the three years based upon the testimony  
9 of Mr. Shuell as to how merger synergies  
10 implementation costs would be incurred and  
11 realized.

12 Q Okay. Come down here net savings of 3.4  
13 million in 2000; 2.6, 2001; 6.4, 2002.

14 A Yes, I would point out though in year one the  
15 mergers or transaction costs and  
16 implementation cost actually exceed the  
17 savings so that is a negative 3.4 as indicted  
18 on the Schedule.

19 MR. WRIGHT:

20 That's all I have, thank you.

21 CHAIRMAN HELTON:

22 Do I assume that when you net vertically that you  
23 are also netting horizontally or not?

24 A I'm not sure what you mean by netting

1 horizontally, I'm sorry.

2 CHAIRMAN HELTON:

3 Will you carry the negative in year one over  
4 against the positives in year two and three?

5 A I did not on this schedule, no.

6 CHAIRMAN HELTON:

7 But will you--will you?

8 A In terms of recording the costs and expenses  
9 no they would be recorded in the year  
10 incurred, either whether they are merger  
11 transaction costs or the savings. So they  
12 would be reflected in the reports that we  
13 file with this Commission based upon when  
14 they are actually incurred.

15 CHAIRMAN HELTON:

16 So are you saying that the nine million positives  
17 in year two and three will actually flow back to  
18 the state of Kentucky?

19 A I'm sorry what number did you say?

20 CHAIRMAN HELTON:

21 I added together years two and three and came up  
22 with nine million.

23 A No, that would not be correct. The year  
24 three is what would occur in year three it is

1 not--it is inclusive of what has already been  
2 incurred in the prior years. So the annual  
3 level of savings if you were looking at  
4 expense savings which would be on line five  
5 in year three is 6.4 million dollars from  
6 base line or today.

7 CHAIRMAN HELTON:

8 Redirect?

9 MR. CARLISLE:

10 We have no redirect.

11 CHAIRMAN HELTON:

12 Mr. Atkinson?

13 MR. ATKINSON:

14 No recross.

15 CHAIRMAN HELTON:

16 You may be excused.

17 A Thank you.

18 MR. FOSTER:

19 Our final witness is John Blanchard.

20 (WITNESS DULY SWORN)

21 CHAIRMAN HELTON:

22 Mr. Carlisle.

23 MR. CARLISLE:

24 Thank you.



1           The witness, JOHN P. BLANCHARD, having first  
2   been fully sworn, testified as follows:

3                                   DIRECT EXAMINATION

4   BY MR. CARLISLE:

5   Q     Please state your name and business address for  
6           the record.

7   A     My name is John P. Blanchard, my business  
8           address is One Tampa City Center, Tampa,  
9           Florida 33601.

10   Q     Where are you employed and in what capacity?

11   A     I'm employed by GT Service Corporation, my title  
12           is Regulatory and Governmental Affairs Vice  
13           President East.

14   Q     Mr. Blanchard you have filed prefiled direct  
15           testimony in this proceeding amounting to 12  
16           pages of testimony; is that correct?

17   A     That is correct.

18   Q     Do you have any changes, additions or  
19           corrections to this testimony?

20   A     No, I do not.

21   Q     If I were to ask you the same questions today  
22           that are contained in your prefiled direct  
23           testimony, would your answers be the same?

24   A     Yes, they would.

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MR. CARLISLE:

Madam Chairman, I would ask that Mr. Blanchard's testimony be admitted into the record as if he gave his testimony orally from the stand.

CHAIRMAN HELTON:

So ordered.

MR. CARLISLE:

The witness is available from cross-examination.

CHAIRMAN HELTON:

Mr. Atkinson?

MR. ATKINSON:

No questions, Madam Chairman.

CHAIRMAN HELTON:

Ms. Cheuvront?

CROSS EXAMINATION

BY MS. CHEUVRONT:

Q Good afternoon.

A Good afternoon.

Q This is the first--I think I'm the first one asking questions. I'm going to direct the questions to you guys, Mr. Shuell, what if

1 for some reason the cost end up--the cost of  
2 this merger end up at the end of year three  
3 being more than the savings that have been  
4 estimated, what guarantee do we have that you  
5 are not going to come in and ask for the  
6 ratepayers to pay for this merger?

7 A I would say first of all I would agree with  
8 Mr. Shuell that that likelihood is highly  
9 improbable. I fully expect to have savings  
10 from the merger. Secondly, if we were to  
11 come before the Commission I think the  
12 Commission would be within its rights to say  
13 to the company we don't agree with the  
14 decision you have made or the way you have  
15 done this and to deny that cost. I don't  
16 believe that will happen, I don't see us  
17 coming before the Commission seeking any kind  
18 of increase based upon the merger.

19 Q But if you don't think that Kentucky  
20 ratepayers should get the savings, which is  
21 what I think I read on your testimony on  
22 lines 11 and I'm not asking questions about  
23 that, then why should there even be any  
24 possibility that you would come in and have

1           them pay for it?

2    A    I don't believe I'm saying that they

3           shouldn't receive the savings. I think I'm

4           saying that initially the savings will take

5           some time to materialize. And as they do

6           materialize, we will have reports come to the

7           Commission, the Commission will have an

8           opportunity to observe our operating results.

9           We can have a continual dialogue with the

10          Commission through my staff as to what

11          appropriate action should be taken either

12          informally or formally. I might just mention

13          that two years back we had an informal action

14          taken where we actually reduced our rates.

15          And we are willing to enter whatever dialogue

16          is needed to continue to take care of

17          business as it should be done.

18                   MS. CHEUVRONT:

19                           I have no further questions.

20    CHAIRMAN HELTON:

21                   Mr. Willis?

22

23

24

1 CROSS EXAMINATION

2 BY MR. WILLIS:

3 Q Mr. Blanchard, I think you have been in the  
4 hearing room all day, haven't you?

5 A I have been.

6 Q An earlier witness deferred to you about was  
7 there ever any discussions about a rate  
8 reduction in Kentucky; do you recall that?

9 A I recall that there was several referrals, yes.

10 Q Well, to your knowledge has there ever been  
11 any discussions about a rate reduction in  
12 Kentucky as a result of this merger?

13 A The discussions have been along the line that  
14 we expect to have savings from the merger.  
15 We do expect at some future time that there  
16 will be appropriate follow up actions taken  
17 from the merger. The hesitation I would have  
18 as I address that, is that today we have a  
19 number of other issues that are also needing  
20 to be addressed at some time. Those include  
21 the fact that our price structure is really  
22 disoriented in many respects. And we have  
23 some areas where the prices are pretty close  
24 to being on line and we have some others

1           where I think they are out of line either too  
2           high or too low. And I believe that we have  
3           probably unfinished business that we should  
4           discuss with the Commission at some time to  
5           address that. This Commission also has a  
6           universal service order which is currently  
7           being held in abeyance waiting for the FCC's  
8           further action, which I think is one of the  
9           best approaches to that area being taken in  
10          the country. But I believe we have every  
11          opportunity at future times to continue our  
12          dialogue, to address earnings levels as they  
13          continue to develop and to respond to  
14          initiatives that either the Commission would  
15          bring or that we would bring.

16    Q       What initiatives have been discussed that you  
17            might bring?

18    A       Well, we go back, for example, about two  
19            years in time as an example. The time when  
20            our earnings had been tracking up to a point  
21            that I figured who all was involved from the  
22            Commission at that time that we were invited  
23            by telephone call to come in and discuss our  
24            current levels at that time. This was back

1 in 1997. And we expressed to the Commission  
2 that we did have a higher than authorized  
3 earnings level, that we also had unfinished  
4 business at that time that dealt with areas  
5 of our capital recovery, and other  
6 uncertainties that dealt with the  
7 Communications Act and what was going on at  
8 that time. We expressed our willingness to  
9 address the earnings level, especially if the  
10 Commission would work with us on our recovery  
11 of our capital investment. The Commission  
12 acted very positively on that and I believe  
13 our reduction back in October of 1997 was  
14 10.7 million dollars of revenues. And I  
15 think that same kind of dialogue is something  
16 we could continue to work through and address  
17 as there are needs at future periods of time.

18 Q You don't see it right now though?

19 A Right now meaning before the merger or right  
20 now after the merger, what is your thought?

21 Q We'll just take it both ways, before and  
22 after?

23 A I'm aware that right now earnings that are  
24 trending up, but that trend line is so short

1 that I'd like to have further time myself to  
2 examine the nature of that and whether that  
3 is a spike in time or whether it is really  
4 something that is going to be sustained in  
5 time. But based upon that examination or  
6 further dialogue there may be something we  
7 would discuss doing in the immediate time  
8 frame. I think that post merger as you have  
9 heard here today there is going to be a lot  
10 of cost involved with that especially in the  
11 first few years, and that is why I think we  
12 would be best served letting those years  
13 settle out and get that activities resolved,  
14 then we can come back and see exactly where  
15 we are with our current ongoing earnings  
16 position in that same three years time.

17 Q You just used the term earnings trending up,  
18 could you explain what you mean by that,  
19 could you give us some figures?

20 A The--I'm going to hesitate here a bit because the  
21 department that produces those figures is a  
22 regulatory accounting group in Texas and I do not  
23 normally examine their work. I managed that group  
24 about five years ago but for the past five years I



1 have been apart from that group. And so I don't  
2 normally examine what they produce. But I know  
3 that they do report to the Commission on a regular  
4 basis and in the past few days in anticipation of  
5 these hearings I have inquired as to where we are,  
6 and from what I've seen I think we are showing  
7 some increased earnings level in just the last few  
8 quarters.

9 Q What is the authorized rate of return in  
10 Kentucky?

11 A I think it is 12.75.

12 Q And what sort of rate of return are you  
13 showing right now, what you see in the  
14 figures of the company?

15 A Well, the most recent report which I believe  
16 was corrected recently was in the range of  
17 18. But that was a one time increase which I  
18 consider rather sudden, because just last  
19 fall, third quarter of '98 we were down in  
20 the 12 range. And when I see that kind of a  
21 change it gives me some pause for concern. I  
22 want to go back and do some analysis which I  
23 have not had occasion to do and just verify  
24 that that is something that is sustainable,

1 that it is real, that it is not something for  
2 example, we have had some recent conversions  
3 in our accounting system and I want to make  
4 sure that we don't have some other anomaly  
5 that is involved in that that I don't  
6 understand. So, I believe there is further  
7 analysis to be done, I'd like to go back and  
8 do that, but surely as we monitor those  
9 levels and I'm sure the Commission monitors  
10 those levels we will have opportunity to  
11 continue our dialogue.

12 Q What other earnings figures have you seen  
13 which would exceed the authorized rate of  
14 return in Kentucky?

15 A I don't think I've seen anything else other  
16 than that. Are you referring to something in  
17 particular?

18 Q I'm referring to anything else you might have  
19 seen?

20 A No, that's all I've seen.

21 Q Do you--you say you have had three quarters  
22 last year, you talked about the trending down  
23 or something like that?

24 A No, I looked back over the past several

1           quarters just to get an understanding of  
2           where the trend line has been. In the third  
3           quarter of 1998 I believe what was submitted  
4           as a--and again because I don't produce this  
5           report, I'm not sure, I believe it is  
6           probably a 12 month rolling average, I'm not  
7           sure of that. At that time earnings level  
8           was down in the 12% range, actually below the  
9           authorized.

10        Q     Uh-huh.

11        A     I believe that a--and I don't remember exactly  
12           what it was and I think that it was maybe 13 in  
13           the next period, but it was in that range again.  
14           Right now we are showing something higher than  
15           that and I feel the need to go back and examine  
16           why that is.

17        Q     You think that could have been a mistake?

18        A     Without examination I don't know. I don't  
19           know.

20        Q     If you are making up as high as 18 why don't  
21           you just provide more service to the people  
22           at the current rates? Go into eastern  
23           Kentucky and let's provide what you propose  
24           to provide after the merger, if you are

1 making earnings like that why not go ahead  
2 and go into east Kentucky?

3 A I think as you heard from one of the early  
4 witnesses today as we have our continuing  
5 dialogue we can discuss several possible ways  
6 to address earnings levels and opportunities  
7 we have. I think you also heard Mr. Reed say  
8 that as we do that it is also depending on  
9 equipment availability, just the time  
10 involved to engineer and accomplish both the  
11 switching and the outside plant work that has  
12 to be done. So I mean we can address that as  
13 it is prudently reasonable to do so.

14 Q But we don't have to have a dialogue for you  
15 to unilaterally come in and ask for a rate  
16 decrease do we?

17 A But I wouldn't do that unless I had some  
18 really meritorious reason for it. And I  
19 don't see any basis for that today.

20 Q The overearnings you are talking about right  
21 now isn't sufficient reason?

22 A Generally, I would like to see some history  
23 that has been sustained for a few quarters at  
24 least to have an idea that it is not just a

1 spike in time. I've seen spikes in time that  
2 a few quarters later it was not there, you  
3 know, it was an aberration. And I feel like  
4 we need a little more history to go on before  
5 you would do anything such as that.

6 Q Well, you said you would like to see a few  
7 quarters at least, how many quarters?

8 A I don't have the magic number, I'd like to  
9 see at least two or three quarters or perhaps  
10 four just to know what the line is. But it  
11 might be that in two or three quarters we  
12 will see sufficient activity and have enough  
13 information, you know, that we could go  
14 forward. Quite well you--the problem I make  
15 here is that this is a dialogue that we can  
16 have at any time, we are willing to have the  
17 discussions and examine the results. We are  
18 not closed, you know, from having those  
19 dialogues with Commission staff.

20 Q Let's see, one, two or three quarters the 18  
21 would cover four quarters wouldn't it?

22 A That's one report. That is only one time  
23 I've seen a number like that and I feel like  
24 I need a little more time than to act on a

1 single report that is achieved a level that  
2 is not consistent with what I have seen in  
3 several previous quarters.

4 Q You indicate on page six of your testimony  
5 starting at line seven at some point the  
6 merged company may decide to consolidate Bell  
7 Atlantic's long distance operations. Has  
8 this been discussed?

9 A That's in my testimony because at the time we  
10 were developing this I was making the point  
11 with my staff as we were developing this line  
12 of reasoning that today we have our own long  
13 distance company. Bell has their long  
14 distance company, both of those are  
15 resellers. Resellers have, I think, a pretty  
16 hard road to hoe, they don't have facilities,  
17 they are fighting against companies that do,  
18 and the point that I made is that as we bring  
19 our new fiber on line that we are acquiring  
20 from the Qwest Corporation I think this  
21 gives us a greater opportunity to be a  
22 better, stronger competitor. As we do that  
23 we might want to put all of our eggs in that  
24 basket and let all of our new pieces have

1           that benefit as they compete in the market  
2           place. I believe I say here that whatever  
3           the statutes are that we need to address at  
4           that time, to make sure we have any procedural  
5           requirements met, we will be happy to go  
6           through that process to make sure we are  
7           ready to move forward.

8    Q       Okay. The question was has that been  
9           discussed?

10   A       Only with myself and my staff. The reason  
11           I'm saying that here is because I made that  
12           observation myself, that I would expect as we  
13           bring that new facility on line that would  
14           bring us a greater desire and intent to use  
15           that for all of our future collective  
16           activities. I have not discussed that with  
17           anyone in--elsewhere in the company, anyone  
18           in the long distance company, that is just my  
19           observation, that--it would make sense to me  
20           that we would do that.

21   Q       You haven't discussed it, have you put it in  
22           writing in the form of a letter or memorandum  
23           or some other document and passed it on up  
24           the line?

1 A I haven't believed it would be timely at this  
2 time, but I would fully expect the people in  
3 that business line are all--they are very  
4 much aware of what they are doing with their  
5 developing new facility. I fully expect that  
6 they are going to address that themselves.  
7 If they did not, I would be happy to pass it  
8 along to whomever, but I have not done that  
9 at this time.

10 Q Okay. You have forwarded no form of writing  
11 and you have no verbal discussions?

12 A I have not.

13 Q Okay. At top of page nine you say the merger  
14 will have no impact on the 47 interLATA local  
15 calling routes, which I understand may be 50  
16 now?

17 A I'm not sure this is speaking of the same  
18 thing.

19 Q I'm sorry, you're right.

20 A I believe what we are talking about here is  
21 that we may have some EAS calling or other  
22 calling that is local in nature that crosses  
23 interLATA boundaries. And, as such, when we  
24 combine with Bell, we would have a potential



1 issue if it were an issue, but it's not.  
2 Because, you know, they were not a provider  
3 in this state at the time the Act was passed  
4 so there simply is no concern, it's not an  
5 issue.

6 Q So that would not be an issue post merger  
7 either?

8 A No, no issue post merger.

9 Q On page ten, at line nine, you say, "Thus,  
10 competition will only improve the quality of  
11 GTE South's services." What do you mean by  
12 that, what quality and what services will be  
13 improved?

14 A I'll just begin by saying that in my opinion, just  
15 as a business person, I believe that the company's  
16 intent, and I would talk about our intent as GTE  
17 or our new intent as a combined company, is to  
18 succeed in the market place. I think that is  
19 accomplished by having the packages of services  
20 the customers want, the right types of services  
21 and the bundles of service, the right price for  
22 the services and the right quality for those  
23 services. I think those three things are all  
24 required and are essential for us to succeed in

1 the market place, which is what this is all about.  
2 I believe that as the combined company we are  
3 going to have a better, stronger approach to our  
4 whole marketplace. It will involve being a  
5 better provider from a cost standpoint, being able  
6 to have a real competitive price, it will include  
7 having best practices to support our ability to  
8 have the highest level of quality. My observation  
9 here, just from a business person's standpoint, is  
10 that I believe we will be a stronger better  
11 company and that we will have higher quality as a  
12 result. The point I would make is that you can't  
13 succeed in the marketplace without sustaining your  
14 quality levels and I think that we will be able to  
15 be stronger in that regard.

16 Q So right above that on lines seven and eight  
17 you say that as competition increases GTE  
18 South will have incentive to provide more  
19 competitive services. So are you saying  
20 without competition there is no incentive?

21 A I think the company's incentive is to provide  
22 the service that provides the greatest  
23 opportunity for increased activities,  
24 increased revenues and increased return. And

1 I believe the company's incented to offer any  
2 new service that will bring a proper return.  
3 The introduction of competition I think is an  
4 improvement in any industry. It causes  
5 everyone to work a little harder and be a  
6 little sharper and look what the competition  
7 is doing and make sure that we are trying to  
8 meet them or beat them across-the-board. I  
9 just think that is a natural human event that  
10 when companies go head-to-head, both  
11 companies try harder. I think we are trying  
12 hard as we are but I believe we will continue  
13 to redouble those efforts as we have greater  
14 competition.

15 Q At page 11 you talk about synergy, there at  
16 line five you talk about synergies from the  
17 merger will result in tangible benefits to  
18 Kentucky consumers. What do you mean by  
19 tangible benefits?

20 A Which line again please?

21 Q It's on page 11, line five.

22 A Line five, thank you. Let me just pick up  
23 the line of thought here. This line of  
24 thought is addressing the fact that there

1 will be lower costs in future periods of  
2 time. I think, as we have already discussed,  
3 that will give the company the opportunity to  
4 have a stronger rate of return. As we have  
5 stronger rates of return we can tweak prices  
6 and--the thing I meant to express before and  
7 didn't go back to it, we have prices today  
8 where we are not competitive, where we have  
9 prices that are too high. It gives a greater  
10 ability to address those and bring them more  
11 in line. It reduces the need to potentially  
12 increase a price that is too low, because it  
13 gives us the ability to handle as much of  
14 that as we can through our increased  
15 effectiveness in the marketplace. The more  
16 effective we can be, the more we can offset a  
17 need that we might otherwise have to address  
18 a price deficiency. So I believe that the  
19 balances across-the-board, the better we do  
20 as a company I think across-the-board our  
21 customers will benefit.

22 Q Did I see something or am I making this up,  
23 you can let me know, about a rate freeze  
24 perhaps for three years or you wouldn't ask

1 for a rate change for three years in  
2 Kentucky?

3 A That was not part of the written proposal but  
4 it is my understanding that we made a phone  
5 call and just simply said if that was  
6 something the Commission really wanted us to  
7 do, could we do that, and I believe it was  
8 something the folks have said that we could  
9 do that if they desire.

10 Q Don't we run the possibility with a rate  
11 freeze like that and not a rate reduction of  
12 you getting over earnings for three years?

13 A Well, I think what we are talking about there  
14 is a rate freeze--or a rate cap, I'm not  
15 really sure which it would need to be. But  
16 the thing I would like to do, as we have the  
17 dialogue, I mentioned before, is I'd like to  
18 not address only the single issue of the  
19 earnings level but I think we have other  
20 issues that are appropriate and timely to  
21 come before the Commission. I'd like to  
22 address those other things at the same time  
23 rather than just a single issue of the  
24 earnings level. I'd like to try to take care

1 of as much of that as we can, so--

2 CHAIRMAN HELTON:

3 Mr. Willis, could I interrupt for just a  
4 second.

5 MR. WILLIS:

6 Sure.

7 CHAIRMAN HELTON:

8 Mr. Blanchard, since you seem to be one  
9 of the more senior members of the GTE  
10 staff here today, would you just tick  
11 off for us from--from the previous  
12 hearing and from this proceeding what  
13 the companies, the two companies, are  
14 assuring the Commission that is going to  
15 accrue to the benefit of the customers  
16 in Kentucky?

17 A First I'm not sure I am the most senior, I  
18 think that is not correct, but I can tell you  
19 only what I know and I was not involved in  
20 the first hearing. I know that here in this  
21 proceeding, here today, that we are  
22 definitely committing to make the investment  
23 toward the CLASS service. I think that was  
24 discussed this morning at some length, that

1 due to the nature of the world markets we  
2 serve, the 25,000 customers that remain  
3 unserved by CLASS services, you know, at a  
4 significantly high cost to do that, if that  
5 were a stand-alone decision without anything  
6 else driving it, if there were not the desire  
7 to, you know, support that level--I'm going  
8 to interrupt myself here a second and say I  
9 believe it is appropriate. I think there are  
10 reason why we ought to do that. But if we  
11 are doing it from the purely economic  
12 standpoint, we probably would not, because it  
13 is not economic. I do think, however, that  
14 just as the Act suggests, the  
15 Telecommunications Act of '96, that we ought  
16 to be providing the same level of service to  
17 all customers in all areas. You know the way  
18 that can be sustained and at the same time  
19 eliminate the implicit subsidies is by having  
20 an effective universal service funding  
21 program by doing rebalancing as appropriate.  
22 And I think those two things are very  
23 necessary or you can't bring this about. I,  
24 personally, firmly believe that we ought to

1 be giving the same level of service to all of  
2 our customers, that we should not have first  
3 and second class citizens in different parts  
4 of the state. So I support that effort, I  
5 think that ought to be done. But it is not  
6 economic on a stand-alone basis in those  
7 marketplaces.

8 CHAIRMAN HELTON:

9 Well, let's just go down the line. In  
10 terms of rates, what are the companies  
11 agreeing to?

12 A Well, at this time, there was nothing in this  
13 proposal that was addressing the rate levels  
14 and we were inviting the Commission to come  
15 back and visit with us at the appropriate  
16 time after we have gotten through all of this  
17 activity. And it may be very needful at that  
18 time to go through a full review and to  
19 address rate levels. But, as I have said, I  
20 think that is not a single issue, I think it  
21 is a multisided issue because there are many  
22 aspects of the rate levels that are out of  
23 line.

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VICE CHAIRMAN HOLMES:

If I understand what you are saying then, you are saying after review, thorough review, you mean after the Commission's review of the merger proposal?

A Well, in my testimony I think the position we have taken in this proceeding is that it would be most appropriate to approve the merger, let the merger be accomplished and then work through the time of the cost and occurrence and get into the point that we have actually have achieved the savings, and that would be the time to come back and examine the result and then address rate levels as appropriate at that time.

CHAIRMAN HELTON:

I believe in the previous hearing, even though that the testimony indicated that although the companies were not filing that as a part of the proceeding, that there was testimony that they had no expectation of raising rates, that rates would stay at the same level in the state of Kentucky, pre and post merger?

1 A We do not have any intent of raising the  
2 overall rate level, that is correct.

3 CHAIRMAN HELTON:

4 That covers rates. Quality of service?

5 A Again this is not my area. My firm belief is  
6 that we'll increase in our quality of service,  
7 but it is not my--

8 CHAIRMAN HELTON:

9 What assurance, the assurances, have you  
10 not read the testimony?

11 A I've read the testimony, I believe--I'm not  
12 sure if I have instant recall of all of the  
13 testimony. I think we have indicated we will  
14 surely meet the Commission standards,  
15 maintain levels, yes.

16 CHAIRMAN HELTON:

17 And when the Commission asks in our  
18 Order in April, or whatever, we asked  
19 for an indication of what advance  
20 services you planned to offer in the  
21 State of Kentucky? Your response to  
22 that is going to be the CLASS services?

23 A That is at least one part. And, again, this  
24 is not my area of responsibility. I would

1 expect that as we institute that, that that has a  
2 corollary benefit because that involves  
3 improvements in outside plant, SS7 switching in  
4 place, I believe--and I'm speaking this as a non-  
5 technical expert--but I believe that one of the  
6 advances that will come as a corollary benefit is  
7 faster speeds, for Internet access for example.  
8 I think that would be enhanced in that process.  
9 But, again, I'm offering that as an opinion as a  
10 non-technical expert, so I could be wrong.

11 CHAIRMAN HELTON:

12 We asked questions about the operation  
13 of the companies and I don't think  
14 that we have had any further  
15 clarification of what the  
16 organizational structure is going to  
17 look like or how that is going to  
18 change from the previous testimony  
19 that we had?

20 A We heard from Mr. Reed this morning that his  
21 line organization should experience no change  
22 at all. I think the only kind of change you  
23 would see is that there is some staff  
24 position that is located in the state that

1 might be duplicative of it someday, that that  
2 possibly could be addressed, but I foresee  
3 very little change in the state. I think,  
4 for example, my folks here--that I'll have  
5 the same staff or potentially more staff as  
6 we go forward.

7 CHAIRMAN HELTON:

8 And in terms of market power we have  
9 heard the testimony on that, we will  
10 hear further testimony on that, and  
11 Mr. Shuell's--Mr. Shore's testimony  
12 gave us a quantification of the merger  
13 benefits to Kentucky.

14 A Yes, it did.

15 CHAIRMAN HELTON:

16 And absent the Commission's Order--or  
17 let me ask this. The CLASS services  
18 is projected to cost 23.7 million?

19 A That's my understanding, yes.

20 CHAIRMAN HELTON:

21 And you are going to roll that out for  
22 four years?

23 A As you heard Mr. Reed say, potentially, that  
24 time frame could change if we find we can do

1           it faster, but that was the projection that  
2           is made just because of all the outside plant  
3           work that is involved and all of the  
4           switching work and I think the vast number of  
5           switches involved in that.

6                           CHAIRMAN HELTON:

7                           And obviously that was in response to  
8                           the Commission's Order on advanced  
9                           services, but Mr. Gillis--Commissioner  
10                          Gillis asked Mr. Bone from West  
11                          Virginia, this morning, about the use  
12                          of that \$23.7 million and if it could  
13                          be better utilized in some other  
14                          areas. Would you comment on that?

15    A    That is a hard question because I think on  
16           the one hand, as I expressed before,  
17           personally, I believe we ought to provide the  
18           same level of service across-the-board but,  
19           in doing so, that can only be sustained  
20           through universal service approaches.  
21           Because as we go out five years and we have  
22           far more competitive activities in the  
23           marketplace, we won't have the ability to  
24           sustain the services that today are way below

1 cost with the implicit subsidies that are  
2 there today. I don't think those can be  
3 sustained out three, four, five years. We  
4 are going to have to find a way to either  
5 address them on their own merits or have a  
6 truly functioning universal service system in  
7 place. And, again, I would just go back and  
8 mention that I commend this Commission as  
9 being, I think, one of the most--one of the--  
10 taking one of the most appropriate approaches  
11 in that area. I know the Order is still  
12 being held, at this time, but I often point  
13 to the work that has been done here in  
14 Kentucky, in other eastern states, and say  
15 that's how it ought to be done. I believe  
16 that we have the right approach that will be  
17 unfolded at the right time and we can through  
18 that help sustain activities and operations  
19 in more rural areas and have a platform to do  
20 it.

21 CHAIRMAN HELTON:

22 Mr. Reed testified this morning that you  
23 are looking at, in addition to local  
24 calling plans, that you are looking at

1                    what he called bulk minutes, I believe  
2                    he called it, and so forth. Are you  
3                    planning on rolling out those local  
4                    calling plans as a reduction in earnings  
5                    or are you planning on doing it on a  
6                    revenue neutral approach?

7        A        It has been my understanding, because we have  
8                    started this process in several states, those  
9                    have generally been approached on a revenue  
10                    neutral basis. Now, if the Commission--this is  
11                    one of the things that we could discuss with  
12                    you. If this was a more appropriate use of  
13                    some dollar levels, we could talk about how  
14                    that could be done. But our approach has  
15                    generally been to do it on a revenue neutral  
16                    basis.

17                    CHAIRMAN HELTON:

18                    Anything else on assurances?

19                    VICE CHAIRMAN HOLMES:

20                    I just have one other question. You  
21                    talk about sustained earnings of say two  
22                    to four quarters, you know, you want to  
23                    see whether the earnings are going to--  
24                    see a printout--

1 A Yes.

2 VICE CHAIRMAN HOLMES:

3 --before, you know, we talked and looked  
4 at some type of reduction, but would you  
5 suggest waiting for the merger savings  
6 to play through or would you have  
7 sustained earnings while we are in the  
8 four year time period?

9 A I believe the Commission is fully empowered  
10 to have a dialogue with us based upon where  
11 we are right now. I think this issue where  
12 we are today is entirely apart from merger  
13 activity. I think the merger should be  
14 looked at in its own right and merit and we  
15 would look at today's activity with where we  
16 are today. So I think we should have a  
17 continuing dialogue.

18 VICE CHAIRMAN HOLMES:

19 Is that the sustained earnings should  
20 be exclusive of the--

21 A I think it something that is an issue that we will  
22 need to look at over the balance of this year.  
23 And if it is initially that it's--you know, we  
24 find out that it is sustainable, then we can talk



1 about the right way to address that within the  
2 current time frame.

3 VICE CHAIRMAN HOLMES:

4 Exclusive of any of the merger--

5 A Yes, right.

6 CHAIRMAN HELTON:

7 Okay, Mr. Willis, go ahead.

8 Q Just a few more questions. In Washington  
9 State have any rate reductions been approved  
10 --proposed, I'm sorry?

11 A I'm not familiar at all with Washington  
12 State.

13 Q Do you know whether any will be?

14 A I do not know.

15 Q What about California?

16 A I don't know.

17 Q Illinois?

18 A It's not one of my states and I don't know.

19 Q Pennsylvania?

20 A Pennsylvania I believe that in the  
21 stipulation that we have, or the agreement I  
22 should say, that we have entered with the  
23 Attorney General that there are some  
24 unspecified potential future rate reductions.

1           And I have not been--that is one of my states  
2           but I was not closely associated with that  
3           negotiation. So I can't--that's all I know  
4           is I think they are unspecified, it is just a  
5           projection that at some point in the future  
6           they will have some rate reduction.

7       Q     So you don't know whether it would be a \$5  
8           million dollar rate cut in Pennsylvania?

9       A     I believe I have heard that number, yes.

10      Q     What about access charges in Pennsylvania  
11           being cut by 250 million over five years?  
12           Have you heard that figure?

13      A     No, I haven't, and I would have some  
14           difficulty with that. I hope that is not  
15           ours.

16      Q     How about UNE rates cut by 14% once Bell  
17           Atlantic gets approval from the Pennsylvania  
18           PSC to enter the long distance market?

19      A     In our own case we don't yet have approved  
20           finally any rates in that state. It is  
21           something that--we have had a docket open for  
22           some time and it hasn't gone forward, and, so,  
23           I don't know--I don't think that--we  
24           don't have really a basis to apply that to

1 our operations yet. So--I would just--back  
2 on that one rate reduction in Pennsylvania, I  
3 would note that, for example, when we had the  
4 Contel merger we had some states, including  
5 Virginia, where we did not make any rate  
6 reconciliations between the old Contel and  
7 the old GTE rates. Here in Kentucky we did,  
8 in fact, do that, but at the time of the  
9 Contel merger we reduced the Contel rates  
10 down to the GT level. And, so, I think we  
11 have some states that are now making that  
12 kind of reconciliation that--it's not needed  
13 here because we have done that already. So,  
14 I think you have to look at an individual  
15 state on its own merit there. It has a  
16 history, it has a background that is separate  
17 and apart from any other state and I think  
18 that it is probably inappropriate to take  
19 one state and say that just because  
20 something is worked out there that it has  
21 application in a different state.

22 Q In Virginia was there an agreement to  
23 cut GTE rates in southwest Virginia to  
24 rates that other GTE customers pay?

1 A That's exactly what I'm referring to. I'm  
2 referring to something that was done in this  
3 state several years ago. It was not done in  
4 that state until the coming time frame.

5 And, again, I think that is why we have to  
6 look at states individually, because they  
7 have a different history and a different  
8 need based upon their time and place.

9 Q Okay, and on line 24, page ten, you talk  
10 about following consummation of the merger  
11 approximately \$7.2 million of net merger  
12 savings.

13 A That is correct.

14 Q Are you in agreement with that figure?

15 A I'm adopting Mr. Shore's figure there, yes,  
16 that is correct.

17 Q And the 7.2 million, if not more, you want  
18 to come in and have a dialogue or talk about  
19 it as opposed to doing something about it?

20 A Well, at this time that is an estimate, like  
21 I say in my testimony. I think rather than  
22 try to do something now with an estimate, we  
23 would be far better served to come back  
24 together in three years time and review

1 operations, review all the other things that  
2 have changed and are not predictable today,  
3 and based upon the actual operation--  
4 operating results that we are experiencing  
5 then, we can take appropriate action.

6 MR. WILLIS:

7 Thank you, I have no further  
8 questions.

9 CHAIRMAN HELTON:

10 Redirect?

11 MR. CARLISLE:

12 Very briefly.

13

14

REDIRECT EXAMINATION

15 BY MR. CARLISLE:

16 Q Mr. Blanchard, when you were reviewing the  
17 benefits of the merger with Dr. Helton, you will  
18 recall you were asked a question about service  
19 quality. Is it your understanding that the  
20 capital commitment of \$222 million will maintain  
21 our ability to provide service quality at  
22 current levels, as stated by Mr. Reed this  
23 morning?

24 A Yes, that is my understanding.

1 MR. CARLISLE:

2 No further questions.

3 CHAIRMAN HELTON:

4 Mr. Atkinson?

5 MR. ATKINSON:

6 (Nodded head indicating no.)

7 CHAIRMAN HELTON:

8 You're excused.

9 A Thank you.

10 MR. FOSTER:

11 Dr. Helton that concludes our direct case. Just  
12 one housekeeping item if I may. As you know, on  
13 July 9 of this year we filed our application along  
14 with 13 exhibits. It is my assumption that the  
15 application and accompanying exhibits are already a  
16 part of the record but, just out of an abundance of  
17 caution, I would like to formally move that they be  
18 included in the record.

19 CHAIRMAN HELTON:

20 So ordered.

21 MR. ATKINSON:

22 I would also like to take a housekeeping  
23 opportunity, Madam Chairman, I don't believe I  
24 moved the Sprint Hearing Exhibits 1 and 2 and I'd

1 like to move their admission into the record at  
2 this time.

3 CHAIRMAN HELTON:

4 So ordered.

5 (EXHIBITS SO MARKED: Sprint Hearing Exhibits  
6 Numbered 1 and 2)

7 CHAIRMAN HELTON:

8 Mr. Atkinson, call your witness.

9 MR. ATKINSON:

10 Thank you. Sprint calls Dr. David T. Rearden.

11 (WITNESS DULY SWORN)

12

13 The witness, DAVID T. REARDEN, having first been  
14 duly sworn, testified as follows:

15

DIRECT EXAMINATION

16 BY MR. ATKINSON:

17 Q Good afternoon, Dr. Rearden, would you please state  
18 your full name and business address for the record?

19 A David T. Rearden, and my business address is  
20 8140 Ward Parkway, Kansas City, Missouri  
21 64114.

22 Q Are you the same David T. Rearden who has  
23 caused to be prefiled in these proceeding on  
24 August 16, 1999, question and answer direct

1 testimony consisting of 57 pages in length?

2 A Yes.

3 Q Do you have any corrections, deletions or  
4 amendments to your prefiled testimony that you  
5 would like to make at this time?

6 A Yes, just one. On page 29, line six, there is a  
7 quotation marks around the phrase "GTE has done  
8 nothing to stifle competition," and just indicate  
9 that that is not a direct quote. I'd like to  
10 strike the quotation marks.

11 Q Other than that one correction, if I asked you the  
12 same questions today that are contained in your  
13 prefiled testimony would your answers be the same?

14 A Yes.

15 MR. ATKINSON:

16 Madam Chairman at this time I move the  
17 admission of Dr Rearden's testimony into  
18 the record, subject to cross-  
19 examination.

20 CHAIRMAN HELTON:

21 So ordered.

22 MR. ATKINSON:

23 The witness is available for cross-  
24 examination.



1 MR. ZIPPERSTEIN:

2 Thank you. Thank you Madam Chair, Commissioners.

3

4

CROSS EXAMINATION

5 BY MR. ZIPPERSTEIN:

6 Q Dr. Rearden, let me introduce myself again to you,  
7 my name is Steve Zipperstein and I work for GTE out  
8 in California. You are based in Kansas City, is  
9 that correct?

10 A That's correct.

11 Q That's where your office is?

12 A Yes.

13 Q That's where your home is?

14 A Kansas City area.

15 Q And you have worked for Sprint for  
16 approximately the last one and a half years; is  
17 that right?

18 A That's correct.

19 Q Now, you appeared as a witness and prefiled  
20 testimony on behalf of Sprint in this merger  
21 case in Vermont on March 16, 1999; do you  
22 recall that?

23 A Yes.

24 Q You showed up and testified in the hearing room

1           against the GTE/Bell Atlantic merger; is that  
2           right?

3       A     That's correct.

4       Q     Your prefiled testimony in Vermont is, in fact,  
5           very similar and in many respects verbatim  
6           identical to your prefiled testimony here in  
7           Kentucky. I'd be happy to take you through a  
8           page by page comparison but--would you accept  
9           that?

10      A     It is very close.

11      Q     Now, at pages 27 through 37, line 12, of your  
12           prefiled testimony here in Kentucky you detail  
13           various alleged conduct that you claim  
14           demonstrates that GTE has been harming its  
15           competitors. Is that a fair characterization  
16           of what is contained in those ten pages?

17      A     Yes, I think that is fair.

18      Q     Now, in Vermont the Hearing Examiner, Mr. Bluhm, do  
19           you remember him?

20      A     Yes.

21      Q     Mr. Bluhm did not allow you to testify about  
22           any of that sort of conduct, did he?

23      A     No, he did not.

24      Q     And the reason that he did not allow you to

1 testify, under oath, about that conduct, sir,  
2 is because you admitted in the hearing room  
3 that you had no first hand personal knowledge  
4 of Sprint's dealings with GTE concerning  
5 interconnection matters between the two  
6 companies?

7 MR. ATKINSON:

8 Before the witness answers I'd have to  
9 interpose an objection. If counsel is  
10 quoting from a proposed order of the  
11 hearing officer in that proceeding that  
12 is one thing, if he is divining the  
13 thoughts of the hearing officer that is  
14 another thing. He sounds like he is  
15 interpreting what the hearing officer  
16 was thinking. If he has an order that  
17 he can show the witness-- Right. The  
18 page that counsel is showing me is a  
19 hearing transcript that has to do with a  
20 supposed admission that was the second  
21 half of Mr. Zipperstein's question, but  
22 the first half, my objection I think  
23 still pertains. I think that I'd like  
24 counsel to rephrase the question, you

1 don't know what the hearing officer was  
2 thinking.

3 Q Let's do it this way so that there is no  
4 question about what was said. I'm going to  
5 hand you page 41 of the March 16 transcript  
6 from Vermont. And would you read from lines 4  
7 through 11, including reading the indication of  
8 who it is that is speaking?

9 A "Hearing Officer: And you have not yourself  
10 had any experience in your work with  
11 responsibility or immediate connection to GTE  
12 interconnection agreements? Mr. Rearden: I  
13 think that is right, yes. Hearing Officer:  
14 Okay, I'm not going to allow you to testify on  
15 that basis."

16 COMMISSIONER GILLIS:

17 He didn't qualify where that came from.

18 CHAIRMAN HELTON:

19 It came from the transcript of the  
20 Vermont hearing.

21 MR. ZIPPERSTEIN:

22 This is from the Vermont transcript.  
23  
24

1 COMMISSIONER GILLIS:

2 That's what he said but we haven't  
3 determined that is part of the  
4 transcript yet.

5 MR. ZIPPERSTEIN:

6 May I ask a couple more questions about  
7 that?

8 Q Do you recall that exchange with the hearing  
9 examiner in Vermont?

10 A Yes.

11 Q The transcript accurately reflects your  
12 recollection of what occurred?

13 A Yes.

14 Q Now, you also indicated under oath in Vermont  
15 that the only basis for your knowledge about  
16 your allegations of bad conduct by GTE is what  
17 other people had told you and what you had read  
18 in the Trade Press; right?

19 A In--that's what I said, yes.

20 Q Now, you worked in the Kansas Commission as a  
21 member of the staff a few years ago; is that right?

22 A That's correct.

23 Q GTE is not an incumbent local exchange  
24 carrier in Kansas; right?

1 A No, it is not.

2 Q So you have no experience as a member of the  
3 Kansas Commission in observing GTE's conduct as  
4 an incumbent local exchange carrier in Kansas;  
5 correct?

6 A No, I do not.

7 Q Now, returning to pages 27 through 37 of your  
8 prefiled testimony here in Kentucky, including  
9 at line 12 on page 37, you yourself have no  
10 first hand personal knowledge of any of the  
11 matters discussed in those pages in the sense  
12 that you yourself played no direct role in  
13 dealing with GTE regarding any of those  
14 matters; correct?

15 MR. ATKINSON:

16 Could you give a page site again  
17 counsel, please?

18 MR. ZIPPERSTEIN:

19 Pages 27, line one, to page 37, line 12.

20 A No, a lot of that relies on the tran--on the  
21 Affidavit from Mr. Brower. However, that last  
22 paragraph in there was forwarded. The basis for  
23 that is a series of e-mails that were forwarded to  
24 me from another, very recently, from another

1 employee within Sprint outlining these problems.

2 Q It is nothing that you were personally  
3 involved in in dealing with GTE; correct?

4 A I don't take orders for local service and I  
5 don't actually service customers but I--these  
6 are not lies, these are e-mails that I  
7 received that indicated that these sorts of  
8 problems are ongoing.

9 Q Now, would you please tell me where the word  
10 Kentucky appears between page 27, line one,  
11 and page 37, line 12, in your prefiled  
12 testimony, other than at the top where the  
13 legend says Kentucky Public Service  
14 Commission?

15 A Page 30, line five; page 30, line 13; those  
16 are the only ones I can find.

17 Q And those two references relate to resold  
18 lines and unbundled network elements  
19 provided by GTE to competitors in Kentucky  
20 based on information you sought from the  
21 FCC; is that right?

22 A That's correct.

23 Q And you heard Mr. Peterson's updated numbers  
24 today; correct?

1 A I heard a number, yes.

2 Q Do you have any personal basis--or any basis  
3 based on your own personal knowledge to  
4 challenge the figures that Mr. Peterson  
5 updated today?

6 A No, I do not.

7 MR. ZIPPERSTEIN:

8 Your Honor, I'm going to move to  
9 strike the witness's testimony from  
10 page 27, line one, to page 37, line  
11 12, based upon a lack of personal  
12 knowledge. It is the same basis upon  
13 which the hearing examiner of Vermont  
14 struck the testimony. I don't believe  
15 that the witness has demonstrated any  
16 foundation whatsoever for being  
17 permitted to testify under oath about  
18 these matters. There may be other  
19 people in Sprint but this witness  
20 clearly has admitted that he lacks  
21 personal knowledge of these matters.

22 CHAIRMAN HELTON:

23 Mr. Atkinson.

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MR. ATKINSON:

May I address that. Madam Chairman, first of all I guess I would cite that Kentucky Administrative Rules do not prevent hearsay from being submitted in administrative proceedings of Kentucky. The second thing I would cite, and this is preliminary to my third comment, but the second thing I would cite is that there is a Kentucky Statute that clearly indicates that the Commission is not bound by the strict rules of evidence but can give such weight to such matters as it sees fit in the conduct of its hearings. The most important thing, however, is that Dr. Rearden is a regulatory policy expert on behalf of Sprint. He is a policy expert testifying on behalf of Sprint in these proceeding and his job duties at Sprint would take him into contact with this normal course--in the normal course of his duties, would take him in contact with this kind of information dealing with other Sprint personnel. If the

1 Commission wants to continue this  
2 further I can voir dire the witness on  
3 this portion of his testimony. But it  
4 is clearly relevant to the proceedings  
5 and the Commission has the ability to  
6 give it the weight that it sees fit.

7 VICE CHAIRMAN HOLMES:

8 Let's take a break.

9 CHAIRMAN HELTON:

10 We'll take a ten minute break.

11 (OFF THE RECORD)

12 CHAIRMAN HELTON:

13 Mr. Zipperstein, on your Motion to  
14 Strike.

15 MR. ZIPPERSTEIN:

16 Yes, Your Honor.

17 CHAIRMAN HELTON:

18 We will allow it in the record and give  
19 it the weight that we think it deserves.

20 MR. ZIPPERSTEIN:

21 Thank you, Your Honor,

22 CHAIRMAN HELTON:

23 Would you proceed please?

24 Q Yes. Mr. Rearden, would you agree with the

1 proposition that a telecommunications company that  
2 is able to reduce its costs can become a stronger  
3 competitor in today's market?

4 A Sure. Any firm that can reduce its costs is going  
5 to become a stronger competitor.

6 Q In fact, Sprint itself has been touting its  
7 ability to deliver certain products and  
8 services at a lower cost as a factor that puts  
9 Sprint in an enviable competitive position;  
10 would you agree with that?

11 MR. ATKINSON:

12 If I could ask the witness to pull the  
13 microphone a little closer to him.

14 A Yes, I would hope we were in an ongoing  
15 manner lowering our costs.

16 Q Would you please refer to footnote five at page  
17 34 of your prefiled Kentucky testimony? Are  
18 you there?

19 A Yes.

20 Q In footnote five you make reference to  
21 Sprint's local telephone division, do you see  
22 that?

23 A That's correct.

24 Q As an employee of Sprint, you are familiar

1 with the fact that Sprint provides local  
2 telephone service to approximately 7.6  
3 million local access lines in 18 states;  
4 is that right?

5 A That sounds right.

6 Q Let me show you, if I may approach, and I  
7 apologize for not asking permission last  
8 time.

9 CHAIRMAN HELTON:

10 Yes.

11 Q May I show you please a--

12 MR. ATKINSON:

13 Counsel may I see the document before  
14 you show it to the witness?

15 MR. ZIPPERSTEIN:

16 I'm sorry. This is a copy of Sprint's  
17 12-31-1998 Form 10K as filed with the  
18 Securities and Exchange Commission in  
19 Washington, D. C.

20 Q Let me just put this in front of you and see if you  
21 recognize the document?

22 A That's what it looks like it says, yes.

23 Q You are generally familiar with Form 10Ks?

24 A Just very generally, yeah.

1 Q And I have numbered the pages in red at the  
2 bottom and I would just ask you to turn to page  
3 seven as numbered in red in my handwriting. I  
4 want to direct your attention to the  
5 highlighted material at page seven that starts  
6 out with the heading "Competition." Do you see  
7 that?

8 A Yes.

9 Q Would you just read that one paragraph into the  
10 record for us, please, it talks about Sprint's  
11 local telephone division?

12 A You want the heading?

13 Q Yes.

14 A The heading is: "Competition. Because LTD  
15 operations are largely in rural markets,  
16 competition in its markets is occurring more  
17 gradually. There is already some competition  
18 in urban areas served by LTD and for business  
19 customers located in all areas. Certain  
20 proposed combinations, such as the merger of  
21 AT&T and TCI would likely accelerate  
22 competition in the area served by LTD. The  
23 merger with TCI would enable AT&T to bypass the  
24 local phone company and reach local

1 customers through the cable of TCI. In  
2 addition, wireless services will continue to  
3 grow as an alternative to wire line services as  
4 a means of reaching local customers."

5 Q Thank you, sir. You, in preparing to testify  
6 both in Vermont and here in Kentucky, are  
7 familiar with the fact that GTE's local  
8 territories around the country consist in  
9 large part of rural and urban areas much--  
10 excuse me--rural and suburban areas much like  
11 Sprint's own local operating territories  
12 around the country; isn't that right?

13 A I think there is some--without looking at the  
14 numbers and comparing exactly, I would agree  
15 that there is some degree of similarity  
16 between some of GTE's service areas and some  
17 LTDs service areas, but I can't, sitting here  
18 today, go into a lot of detail about exactly  
19 how different or exactly how much alike.

20 Q But, generally speaking, the demographics in  
21 the Sprint local operating territories are  
22 similar to the demographics in the GTE local  
23 operating territories. They are both known as  
24 largely rural and suburban local telephone

1 companies; isn't that right?

2 A I do know LTD is largely rural and suburban.  
3 I'm aware that GTE has a lot of rural and  
4 suburban areas.

5 Q Now, how many lines has Sprint the ILEC resold  
6 in its territory in any of its 18 states to  
7 competitors?

8 A I don't have that number in front of me.

9 Q How many unbundled network elements has Sprint  
10 the ILEC leased to competitors in any of its  
11 18 states since the Telecommunications Act of  
12 1996 took effect?

13 A I don't have that number in front of me.

14 Q How many collocation arrangements, either  
15 physical or virtual, has Sprint the ILEC  
16 entered into with competitors in any of its 18  
17 states?

18 A I don't know.

19 Q By the way, do you have any idea whether or  
20 not Sprint provides CLASS services to all of  
21 its customers in all 18 states?

22 A I don't know that.

23 Q Would you accept, subject to check, that in  
24 fact Sprint is not 100% CLASS capable in the

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following five Sprint ILEC states: Ohio--

COMMISSIONER GILLIS:

Can I ask the relevancy of these questions in this case?

MR. ZIPPERSTEIN:

Yes, Your Honor. There was a great deal of discussion today about the provision of CLASS services, whether or not GTE should have already provided those services--

COMMISSIONER GILLIS:

In Kentucky.

MR. ZIPPERSTEIN:

--in eastern Kentucky. And the intent of these questions is to show that Sprint, which is demographically similar to GTE in its local operating territories, has engaged in similar kinds of business decisions and investments. I'm happy to pass on that Your Honor.

CHAIRMAN HELTON:

Okay, thank you.



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VICE CHAIRMAN HOLMES:

Could you make those Kentucky specific,  
your questions?

CHAIRMAN HELTON:

He can't because they are not in  
Kentucky.

Q Does Sprint have any local operating territory  
in Kentucky?

A Not to my knowledge.

Q But Sprint has other local operating territories  
in other states that are demographically similar  
to GTE's operating territory in Kentucky; is  
that true?

A It may be, I don't know.

Q That was the connection I was trying to make.  
Let me ask you this, and this is my last line,  
hypothetically, if Sprint and BellSouth, let's  
say a year from now, announced to the world that  
they had decided to enter into a merger in the  
State of Pennsylvania, where Sprint is an ILEC,  
the merger application promised to convert all  
of the offices in Pennsylvania that do not  
provide CLASS services, within 48 months of  
the close of that merger, and you were in

1 your job asked to go and testify in  
2 Pennsylvania in support of that merger, would  
3 you feel comfortable testifying that the roll  
4 out of CLASS services in 48 months as a result  
5 of that merger would be a benefit to those  
6 Sprint customers who wouldn't otherwise have  
7 received it that soon?

8 A Well, there are two issues there I think. One  
9 is whether the roll out of CLASS services are  
10 a benefit to Kentucky consumers, and I think  
11 that it is hard to argue that better services  
12 are not a benefit. The second, the real  
13 issue, however, in this docket, in a merger,  
14 is whether those benefits are a benefit of the  
15 merger or whether they could happen  
16 independently of the merger; and, secondly,  
17 whether that would be the optimal thing to do  
18 with the funding that it takes to provide  
19 those services.

20 Q Well, I don't want to run too far afield,  
21 Commissioner Gillis, but if I could be given  
22 latitude for a couple of questions? In  
23 Pennsylvania Sprint filed a modernization plan  
24 offering to convert its 12 remaining

1           unconverted offices to CLASS capable--

2                   MR. ATKINSON:

3                           I have to enter an objection here  
4                           because he was offering up a  
5                           hypothetical and now he is inserting  
6                           facts that he is offering into the  
7                           record. Are the facts going to be  
8                           inserted into the hypothetical?

9                   MR. ZIPPERSTEIN:

10                           Yes.

11                   MR. ATKINSON:

12                           And what does this have to do with the  
13                           proposed--I guess I would ask relevance  
14                           to the hypothetical.

15                   MR. ZIPPERSTEIN:

16                           If I add the facts to the hypothetical  
17                           in hypothetical form perhaps that would  
18                           cure the objection.

19    Q    Sir, if hypothetically Sprint had previously,  
20           prior to an announced merger with BellSouth,  
21           offered in a network modernization plan in  
22           Pennsylvania to convert its 12 offices to  
23           CLASS by the year 2008, and as part of the  
24           merger agreed to accelerate that deployment

1 to accomplish it by the year 2004, or within  
2 approximately 48 months of its merger with  
3 BellSouth, hypothetically, would you feel  
4 comfortable testifying that that would be a  
5 benefit of the merger?

6 A I hope you don't know something that I don't  
7 know. No, I would not feel comfortable saying  
8 that CLASS services would be attributed solely  
9 to the merger.

10 Q If Sprint offered to--and BellSouth, again I'm  
11 staying with the hypothetical, Sprint and  
12 BellSouth merging about a year from now,  
13 applying for approval in the State of  
14 Pennsylvania, one of your ILEC states, and as  
15 part of that merger application Sprint and  
16 BellSouth promised to enter Philadelphia and  
17 Pittsburgh to compete against Bell Atlantic/  
18 GTE, would you feel comfortable testifying  
19 that that would be a benefit of a BellSouth/  
20 Sprint merger in Pennsylvania?

21 A No, I would not.

22 Q And just one more. The last question. If as  
23 part of this hypothetical Pennsylvania  
24 Sprint/BellSouth merger application the

1 parties were to make a commitment to expand  
2 local calling plans in Sprint's ILEC  
3 territories in Pennsylvania as part of a  
4 merger, would you feel comfortable testifying  
5 in that proceeding that that would be a  
6 benefit?

7 A No, I would not.

8 MR. ZIPPERSTEIN:

9 Okay. No further questions.

10 CHAIRMAN HELTON:

11 Ms. Chevront?

12 MS. CHEVRONT:

13 No questions.

14 CHAIRMAN HELTON:

15 Mr. Wright?

16 MR. WRIGHT:

17 No questions.

18 CHAIRMAN HELTON:

19 Any redirect?

20 MR. ATKINSON:

21 No redirect. May the witness be excused?

22 CHAIRMAN HELTON:

23 Yes. I think that concludes all of the witnesses  
24 for today. The procedural schedule calls for

1           briefs that are due on Monday the 30th because of  
2           the statutory deadline for us to issue this order  
3           in 60 days. So, we will expect the briefs to be  
4           filed by Monday the 30th. Are there any other  
5           matters to come before the Commission?

6       MR. ZIPPERSTEIN:

7           Your Honor, will we have the opportunity to file  
8           reply briefs? We'd be happy to do it on a very  
9           short basis if it would assist the Commission's  
10          deliberation.

11       CHAIRMAN HELTON:

12           We don't--

13       MR. WALKER:

14           Let me look at a calendar. They would have to be  
15          something like three or four days.

16       CHAIRMAN HELTON:

17           How about the 2nd? Briefs are due on the 30th,  
18          reply briefs on the 2nd.

19       MR. ATKINSON:

20           The 2nd, we can do that.

21       MR. ZIPPERSTEIN:

22           And we will commit too electronic service and/or  
23          overnight service. We will confer off the record  
24          about the best way to do that.

1 MR. ATKINSON:

2 We can do same day service, Madam Chairman, that  
3 will be fine.

4 CHAIRMAN HELTON:

5 That will be fine, thank you.

6 (OFF THE RECORD)

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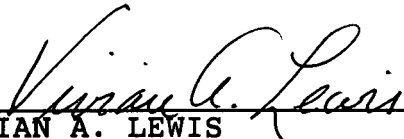
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CERTIFICATE

STATE OF KENTUCKY )  
COUNTY OF FRANKLIN)

I, VIVIAN A. LEWIS, a Notary Public in and for the state and county aforesaid, do hereby certify that the foregoing testimony was taken by me at the time and place and for the purpose previously stated in the caption; that the witnesses were duly sworn before giving testimony; that said testimony was first taken down in shorthand by me and later transcribed, under my direction, and that the foregoing is, to the best of my ability, a true, correct and complete record of all testimony in the above styled cause of action.

WITNESS my hand and seal of office at Frankfort, Kentucky, on this the 28th day of August, 1999.

  
\_\_\_\_\_  
VIVIAN A. LEWIS  
Notary Public  
Kentucky State-at-Large

My commission expires: 7-23-01



*Virian A. Lewis*

COURT REPORTER - PUBLIC STENOGRAPHER  
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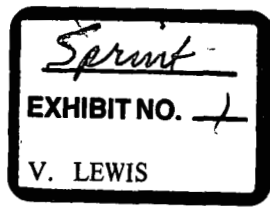


**Paul D. Reed**  
Group Manager

**Local Market Development**  
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Overland Park, KS 66210  
Voice 913 534 6109  
Fax 913 534 6817  
paul.reed@mail.sprint.com

March 8, 1999

Ms. Laurel Parr  
600 Hidden Ridge  
Irving, TX 75038



Dear Ms. Parr,

Sprint Communications Company LP ("Sprint") hereby request commencement of negotiations with GTE pursuant to Section 252 of the Telecommunications Act of 1996 (TA96). These negotiations are intended to produce an agreement providing for interconnection, resale, unbundled network elements, and ancillary services in order that Sprint may provide local service within the state of Kentucky. Further, in addition to formally commencing negotiations for the State of Kentucky, it is Sprint's intent that these same negotiations apply to all the other states where GTE provides local exchange telephone service.

I am sending a hard copy and a disk of a preliminary draft agreement and a negotiating tool to use as a basis for our negotiations. This document is a draft. Sprint reserves the right to modify this document based upon further internal review and review of existing orders from or the issuance of additional orders by the Federal Communications Commission, the appropriate state public service or public utilities commission or a court of competent jurisdiction.

I will serve as Sprint's point of contact for these negotiations. My direct dial phone number, fax number, and Internet address are listed on the letterhead above. Please acknowledge to me, via either Internet or United States Postal Service mail, that you have received this correspondence.

Sprint looks forward to entering into a fair and reasonable Interconnection agreement with GTE in accordance with the requirements of the Telecommunications Act of 1996. I would suggest that we meet face-to-face to begin the negotiating process. I will be in Dallas Thursday, March 18, 1999 meeting with Cindy Matthews, hopefully I will have the opportunity to met you and discuss a date for our first formal negotiating session.

Sincerely,

**Paul D. Reed**  
Group Manager  
Sprint External Affairs

cc: J. Ivanuska/Sprint  
Craig Smith/Sprint  
Cindy Matthews/GTE



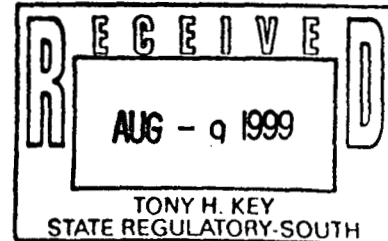
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paul.reed@mail.sprint.com

Delivered via Overnight Mail

August 6, 1999

Bill Munsell  
GTE  
600 Hidden Ridge  
Irving, Texas 75038



Re: Sprint 252(i) Election of Kentucky AT&T/GTE Interconnection Agreement

Dear Bill:

On July 2, 1999 GTE and AT&T jointly filed with the Kentucky Public Service Commission, a revised interconnection agreement. The Commission approved the agreement by its order on July 30, 1999.

Pursuant to Section 252(i) of the Telecommunications Act of 1996, Sprint seeks to elect the same terms and conditions of that agreement as applicable between GTE and Sprint. Accordingly, as agreed, please prepare and submit to the Kentucky Public Service Commission a joint petition seeking, pursuant to Section 252(i) of the Telecommunications Act of 1996, order authorizing Sprint's election of the above referenced interconnection agreement, and approving that agreement as applicable between GTE and Sprint.

As we have discussed Sprint would like to use the product of our current California negotiations as the model template for all GTE/Sprint interconnection agreements.

In addition we have agreed Sprint will be able to exit the adopted agreement and file our negotiated agreement when our template is approved.

Please let me know if additional information is needed with respect to preparation of the joint petition.

Sincerely,

  
Paul D. Reed  
Sprint External Affairs

pc: Bill Atkinson

