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1 A No. It wasn't that.

2 I mean I did have all three questions before
3 me.

4 Q (Nodding head)

5 A And I suppose, as a forensic matter, we did
6 talk about should the testimony directly deal with this
7 question.

8 Explicitly -- rather than
9 implicitly -- it seemed to me that it had given a clear,
10 implicit answer that for these changes the answer is no,
11 there's no need for milestones. Parenthetically, for
12 other changes, that's a more interesting question. So
13 it wasn't a matter of assignment.

14 I did think about it, and I thought about it
15 in the course of drafting whether, indeed, that should
16 be addressed.

17 It, frankly, just didn't seem to go anywhere
18 useful. And I guess in retrospect, particularly in
19 light of your Honor's question, we should have been a
20 little more explicit.

21 But the explicit answer is no, I don't think
22 milestones are necessary here.

23 Q Well, I asked you that just because when I am
24 called upon to present to the Commissioners what the
25 parties' response was to their issue --

26 (Laughter)

27 ALJ REED: Q -- I just wanted to make sure that
28 if I was looking too closely in your testimony for a

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1 response to that, that perhaps you would refer me to
2 another witness if you thought that they would respond
3 to it, or if you thought I should just mark down the
4 company as saying: We thought about it, but we just
5 didn't think it was a good idea.

6 A Well, your Honor, again I can only speak for
7 myself and my analysis. That would be my response.

8 Obviously, the company's witness might give a
9 completely different or more nuance response. And I
10 expect Dr. Harris will have views on the issue.

11 Again, as I drafted my testimony, I should
12 have, I suppose, in retrospect -- have been clearer on
13 that point.

14 But my answer is a relatively straightforward
15 "no." I don't think it's appropriate to consider
16 milestones for this.

17 Q Well, I think you touched on responses to some
18 questions from particularly Ms. Burdick, and to some
19 extent to Mr. Faber and the others, in terms of the
20 questions that were posed to you about the artificial
21 barriers that exist.

22 My question to you is: Given that the
23 Commission has strong concerns about those --

24 A Uh-huh?

25 Q -- certainly, as you have indicated, there are
26 other proceedings that are ongoing that will be
27 examining those barriers.

28 A (Nodding head)

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1 Q The Commission has some concern that simply
2 having a hearing and making a general order or direction
3 will not be as effective or inspire as prompt action on
4 the part of the incumbent LEC.

5 In terms of connecting removal of artificial
6 barriers with concerns that the LECs have, could you
7 speak to what kind of --

8 A (Nodding head)

9 Q -- I guess, economic proposals would address
10 the Commission's concern?

11 A It's an excellent question, your Honor.

12 The answers I gave earlier, I guess, were in
13 terms of, from the companies' point of view, the carrot
14 approach, that if you want pricing flexibility,
15 flexibility to respond to competition, then you've got
16 to remove these obstacles.

17 Q (Nodding head)

18 A And they're economically related because
19 competition is more effective if they're gone.

20 What your question suggests is that the
21 Commission may feel the need for a stick in addition to
22 that carrot, or some other carrot. I'm not sure what
23 other carrot's available, but -- but a stick.

24 And I haven't really thought through the
25 specifics of the "artificial barriers" that are at issue
26 well enough to know what would be the best stick, if a
27 stick were needed.

28 My reaction to Wolak's proposal was that it

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1 didn't seem to have thought it through either.

2 It just said: Adjusting the X is something we
3 can use to make them uncomfortable.

4 But his proposal, for instance, if I
5 understand it correctly, would, if everything was
6 complied to, take it down to zero after five years.

7 Well, with all respect for Pacific's desire
8 for a lower X, a X of zero?

9 As a reward for entry barrier reduction?

10 That's not, obviously, commensurate.

11 Or a vary slow reduction from what already
12 seems high in response.

13 So I wasn't arguing -- and nor do I have the
14 basis to argue -- that the Commission might not want a
15 stick or to use a stick. I just didn't see that this
16 was well designed or well thought through from that
17 purpose.

18 Now, I guess I'm uncomfortable as I sit here
19 trying to design one on the fly.

20 Q I understand.

21 A Well (indicating) --

22 Q Explain to me, because I'm somewhat confused
23 in light of the portion of the answer you've just given
24 me: If we have a proposal such as Dr. Wolak's that
25 would reduce the X to zero, how is that as incon- -- how
26 is that so inconceivable in light of the company's
27 preferred proposal of just freezing things for an
28 indefinite amount of time which, with all due respect to

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1 you, doesn't sound like a very long time.

2 And I am not only base basing that on your
3 response but on personal experience in terms of how time
4 flies in these various proceedings.

5 A (Nodding head)

6 Q How does it differ?

7 A Well, I'd need to reread professor Wolak's
8 testimony. But -- to be sure I understand the details.

9 But a price cap proposal with a X of zero
10 means that prices rise with inflation. So that if
11 there's a 3 percent inflation, prices are automatically
12 adjusted up by 3 percent.

13 Q (Nodding head)

14 A That seems to me unreasonably generous to my
15 friends at Pacific simply because the evidence that we
16 have says that over the long haul there's been a
17 persistent gap of about 2 percent in productivity.

18 Q Uh-huh.

19 A That suggests that prices -- real prices ought
20 to in some general sense be declining by 2 percent.

21 Pacific's proposal -- and I -- I don't dispute
22 your characterization of the period -- but Pacific's
23 proposal is to fix, subject to Commission review -- so
24 in some sense the period is Commission determined -- is
25 to fix the dollar prices so that Pacific would bear the
26 inflation risk.

27 So that if we suddenly found ourselves in the
28 late 1970's with double-digit inflation, under Pacific's

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1 proposal, unless the Commission acted, the phone bill
2 would be the same in dollar terms. The Category I
3 prices and Category II ceilings would be the same in
4 dollar terms.

5 So Wolak -- a price cap with a X of zero
6 builds in inflation adjustments, and I think based on
7 the history from -- as I read it, rather too much.
8 Although that -- I may be misunderstanding his proposal,
9 so I don't want to be held to that.

10 But Pacific's proposal is rather different.
11 If inflation proceeds at 3 percent, say, Pacific's
12 proposal would be to hold prices steady -- not adjust.

13 That means in real terms or inflation-adjusted
14 terms, prices are declining by 3 percent.

15 Well, that's -- again, depending on the
16 periods involved, they're setting themselves a
17 reasonably high hurdle since the productivity study
18 suggests a decline of about 2 percent.

19 Again, your Honor's correct that the period's
20 unspecified, except that the Commission, by failing to
21 approve any request for a rate change, can, under their
22 proposal, prolong it.

23 Q Thank you.

24 Now, your -- is your concern -- one of your
25 concerns with Dr. Wolak's proposal -- I mean aside from
26 the fact that you said there were parts of it that just
27 didn't quite seem clear -- that it's too generous, and
28 Pacific doesn't want to be so generous to itself?

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1 (Laughter)

2 THE WITNESS: (Laughing) I -- I'm giving you my
3 analysis, your Honor, not necessarily Pacific's
4 doctrine.

5 ALJ REED: Q Uh-huh?

6 A I doubt that they'd object to excessive
7 generosity to themselves.

8 But giving you my reaction to it: I think --
9 to be honest, I read through it, and I said, Where does
10 the five years, where does the one percent a year --
11 where does this come from?

12 How does this relate to any expected benefits
13 from reducing these barriers?]

14 Where is this proposal going in the long run?
15 Does he see full competition and no price caps in five
16 years? Does he see it proceeding at this pace?

17 If, as the record seems to me to make clear,
18 5 percent is currently too high, what is the argument
19 for not doing an adjustment and then dealing with
20 rewards and penalties as you go down the road with the
21 basis more in line with the historical record?

22 It just seemed to be a proposal that -- I hate
23 to use a legal term -- lacked foundation. It lacked the
24 analytical basis for its details.

25 That's the main objection. If I were a
26 consumer in California, as I was for seven years, I
27 guess I wouldn't be real happy with a price cap with a
28 zero X factor. And if he is tending in that direction,

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1 competition, it will be necessary to revisit the
2 question, I think, to revisit the question of whether a
3 protracted freeze or some other mechanism is appropriate
4 for providing price protection where it is called for.

5 And in some intellectual sense, the price-cap
6 formula will be in the back of everyone's mind. I think
7 Pacific's preference would be if it is possible not to
8 go back, to not go back, but obviously that will have to
9 be faced in that new context.

10 The company may, as I say, have a different
11 answer.

12 Q Well, I have somewhat personal interest in
13 this since when the straws go around, I usually seem to
14 get the small one. I will be the one that will be
15 looking at this. And I would hope that next year at
16 this time, I don't have to look at it again.

17 I appreciate that you are kind of walking out
18 here without a net. I just don't understand whether or
19 not the price-cap formula under this proposal is
20 eliminated, disappears or is considered to simply be
21 held in abeyance, and the entire process just be frozen
22 to be examined at a later time.

23 A As I understand, the formalism is it is
24 eliminated. But at least my understanding is implicit
25 in the fact that this is part of a proceeding and there
26 is a Phase 2 and so on. It is hard for me to understand
27 how as a practical matter, whatever the principle, that
28 at some stage the question of, well, do we want to

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1 continue with a freeze or do we want to go back to a
2 price cap wouldn't be placed by somebody before the
3 Commission.

4 I think it is Pacific's proposal that the
5 blackboard be erased and that nominal rates and nominal
6 ceilings be held fixed unless and until the Commission
7 decides to do otherwise.

8 What the Commission may decide to do and what
9 Pacific or other parties may subsequently propose to the
10 Commission is beyond my powers of prediction. But I
11 think the intention is for now, let's just hold them
12 constant.

13 Pacific bears the risk of inflation.
14 Consumers have pretty good prices by national standards
15 protected. All these other matters are under
16 consideration. And you may face it in a year. I can't
17 say.

18 ALJ REED: Thanks, Dr. Schmalensee.

19 THE WITNESS: My pleasure, your Honor. You ask
20 hard questions.

21 ALJ REED: Is there any follow-up to any of my
22 questions?

23 (No response)

24 ALJ REED: Well, Dr. Schmalensee, you have lucked
25 out. Run.

26 MR. FABER: I don't know if there is going to be
27 any redirect, first of all, but I want to address the
28 admissibility of Dr. Schmalensee's testimony.

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1 ALJ REED: Okay. Mr. Faber.

2 MR. FABER: Your Honor, this is very difficult.

3 When I received this testimony, I noted that it had
4 three names on it, both in the direct and the reply.

5 Generally, my experience has been that witnesses present
6 their own testimony.

7 I do recall in the 1992 NRF review that
8 Dr. Taylor presented testimony that had both his name
9 and Dr. Tardiff's name on it. I was very well satisfied
10 at the time I cross-examined Dr. Taylor that what he was
11 presenting was testimony that he had prepared.

12 In the course of my examining Dr. Schmalensee
13 this morning, however, I discovered in fact that he only
14 reviewed and commented on testimony that had been
15 prepared by others and that has now been submitted in
16 this docket as his testimony. That concerned me
17 further, but I didn't think it was appropriate at the
18 time to object to him presenting the testimony.

19 I then proceeded to listen to other questions
20 asked of him today, questions about where data came from
21 in which he was unable to say -- particularly, he was
22 asked about the statement that 80 percent of Pacific
23 Bell's revenues come from Category 1 services, and he
24 said he didn't know where that came from.

25 He testified that certain information in his
26 testimony was provided him by Dr. Tardiff. When he was
27 asked about his statement that the imputation test was
28 being met, he testified that came only from discussions

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1 name appearing on the report to be entered into
2 evidence. It is common practice for witnesses in this
3 proceeding and in other proceedings to rely upon their
4 staff to help gather the evidence, to obtain the data
5 that goes into their testimony.

6 Dr. Schmalensee specifically testified that he
7 discussed the issues, discussed the direction, reviewed
8 drafts. The fact that he did not actually put -- write
9 each individual sentence I think is simply a red
10 herring.

11 In addition, he has adopted this testimony as
12 his testimony in this proceeding. He has subjected
13 himself to cross-examination. If Mr. Faber wishes to
14 make arguments of this sort, the proper place to do it
15 is in his brief.

16 ALJ REED: Mr. Castle.

17 MR. CASTLE: I just have to add one thing because I
18 just sat through earlier this year a proceeding where in
19 fact CCLTC did something even more extreme than having
20 one witness adopt testimony. Dr. Selwyn had presented
21 testimony in the fiber beyond the feeder proceeding, and
22 because he couldn't be here, CCLTC had a different
23 witness, completely different witness, adopt the
24 testimony, which I assume was not written by that
25 person, and it was allowed into the record. So I think
26 that has been done by CCLTC.

27 MR. FABER: You assume wrong, Mr. Castle. In fact,
28 Dr. Selwyn and Miss Crafton had written that testimony

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1 the underlying foundation of the testimony which made
2 the adoption acceptable in those circumstances and
3 unacceptable in these.

4 With all that said, and on that ground, I
5 would move to strike five words of Dr. Schmalensee's
6 testimony located on page 8, specifically the second
7 full paragraph beginning at the end of line 8 where we
8 are referring to the imputation test adopted in the
9 original NRF decision and subsequently in the IRD
10 decision. I would move to strike the words "and being
11 met by Pacific." I think a reading of those decisions
12 would determine and reveal whether the requirements
13 discussed in that test are already provided for.

14 However, I don't believe this witness, based
15 on his own testimony, had any factual understanding by
16 which he could adopt statements made to him by his
17 cohorts that would prove or provide substantive evidence
18 that Pacific is in fact meeting those requirements.

19 ALJ REED: Mr. Sasser.

20 MR. SASSER: Your Honor, if I heard Dr. Schmalensee
21 earlier, his earlier testimony correctly, what he was
22 referring to was the decisions and where those
23 requirements are provided for. And he was giving the
24 cite in that context.

25 Subject to the witness' approval of that, if
26 we want to remove the words "and being met by Pacific,"
27 I would have no objection if the witness has no
28 objection.

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1 THE WITNESS: Thank you, your Honor.

2 (End Z H take)

3 (Start ZI take).

4 MR. SASSER: Could we go off the record for a
5 moment?

6 ALJ REED: Yes. Off the record.

7 (Off the record)

8 ALJ REED: On the record.

9 MR. SASSER: Your Honor, Pacific Bell calls
10 Dr. Laurits Christensen to the stand.

11 LAURITS R. CHRISTENSEN, called as a
12 witness by Pacific Bell, having been sworn,
testified as follows:

13 ALJ REED: Please be seated. Would you please
14 state your name, spelling your last name, and give your
15 business address for the record.

16 THE WITNESS: My name is Laurits R. Christensen. I
17 believe the spelling of the first name is more important
18 than the last name. Actually, it's L-a-u-r-i-t-s,
19 middle initial R. Christensen is
20 C-h-r-i-s-t-e-n-s-e-n.

21 My business address is 4610 University Avenue
22 in Madison, Wisconsin.

23 ALJ REED: Thank you.

24 Mr. Sasser.

25 MR. SASSER: Thank you, your Honor.

26 On September 8th, 1995, Pacific Bell
27 distributed to your Honor and all parties in this
28 proceeding a document entitled, "The Prepared Testimony

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1 A Yes, I do.

2 Q And was Exhibit 6 prepared by you or under
3 your direction?

4 A Yes.

5 Q Do you have any additions or corrections to
6 Exhibit 6?

7 A Yes, I have one correction.

8 On page 14 of the report, there is
9 a Footnote 11, a rather lengthy footnote. There is a
10 box in the footnote that reports regression result. And
11 under the title "variable," it says "intercept" and then
12 "time trend" and then "divestiture dummy."

13 The time trend and divestiture dummy variable
14 should be switched. They were inadvertently put into
15 the report in the wrong rows.

16 So when corrected, under "variable," it should
17 read first "intercept" and then "divestiture dummy,"
18 then "time trend" to identify the coefficient standard
19 error and T-statistics that appear to the right.

20 Q With that change, do you adopt Exhibit 6 as
21 your prepared testimony in this proceeding?

22 A Yes, I do.

23 Q Do you have a copy of Exhibit 7 for
24 identification before you?

25 A Yes, I do.

26 Q And was Exhibit 7 prepared by you or under
27 your direction?

28 A Yes.

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1 which begins on page 2 and carries over to page 3.

2 At the end of that paragraph, you state:

3 "Pacific Bell's output performance
4 is likely to be more reflective of
5 industry averages."

6 Do you see that?

7 A Yes, I do.

8 Q Did you base that conclusion on anything other
9 than the State of California's economy and the effects
10 it's likely to have on competition?

11 A I based this statement on what you just
12 referred to. But more broadly to my opinion -- my
13 understanding that, contrary to the 1980's, there isn't
14 a reason to believe that the -- either the economic
15 climate in which Pacific Bell is operating or the
16 starting position for Pacific Bell -- or, if you like,
17 the going-forward position for Pacific Bell -- that
18 neither of those factors distinguishes Pacific Bell from
19 the LEC industry in general.

20 And, therefore, that I believe is in line
21 with -- is what I understand as a repeated suggestion by
22 this Commission to Pacific Bell that they bring forward
23 evidence with respect to past performance of the entire
24 LEC industry rather than focusing on developments within
25 Pacific Bell's own service territory or with respect to
26 their own business.

27 I believe that the report and work that I have
28 done here satisfies that request.

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1 Q Now, let me direct your attention to the chart
2 you have on page 15 of your direct testimony,
3 Exhibit 6. Was the purpose of this chart to graphically
4 show that the local exchange carrier output growth on
5 average fell for the period 1990 through 1993 when
6 compared to the average period, 1985 to '89?

7 A Yes, as is stated just above the chart, in
8 recent years the growth of the telephone industry output
9 has declined.

10 Chart 1 presents the data on output growth
11 from Table 1 of my LEC study.

12 Q But isn't it true that in looking at this
13 chart, if we look at the change from 1992 to '93 in fact
14 the growth of telephone industry output increased; did
15 it not?

16 A Comparing '93 to '92?

17 Q Yes.

18 A Sure. There are lots of different comparisons
19 you could make when you have nine years' worth of data.

20 Q Understood. But that statement immediately
21 preceding the chart in recent years, you're really
22 talking about an average there as opposed to any one
23 increment compared from year to year; isn't that true?

24 A Yes. And I believe that's made clear if you
25 allow me to continue the text below the chart.

26 It says:

27 "The data indicates a slowdown in
28 LEC output growth over the 1990 to

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1 1993 period. Between 1990 and 1993,
2 LEC average annual output growth was
3 2.9 percent. This compares to an
4 average annual output growth of
5 3.8 percent over the 1984 to 1989
6 period."

7 So the chart simply is a visual representation
8 of that.

9 Q What was the significance of choosing 1990 for
10 the average period going forward?

11 A The -- as you can see in Chart 1, the period
12 prior to 1989 is labeled Pre-NRF, and subsequent to
13 1989 is called NRF.

14 And so that was the reason for comparing these
15 two periods.

16 Q Now, isn't it true, in looking at Chart 1,
17 that in the period which actually begins in 1988 as
18 compared to 1989, that local exchange carrier output
19 growth was declining already prior to the enactment of
20 NRF?

21 A Could I please have clarification of the date
22 when NRF actually started?

23 Q It's my understanding NRF became effective in
24 1990.

25 Is that your understanding?

26 A I don't have an understanding.

27 Q So you don't know when NRF became effective?

28 A Well, I don't know the exact date. I know

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1 it's in the 1989-1990 period. I don't know the exact
2 date, and that would help me answer the question.

3 What this chart tells me -- perhaps I'll just
4 answer what I understand from this chart and what this
5 chart represents -- it shows that from 1988 to 1989,
6 there was a slight reduction in the rate of output
7 growth, and it looks to me from about 5 percent to
8 about, say, 5.1 percent to 4.9 percent, something of
9 that order.

10 Q And it also shows a decrease in local exchange
11 carrier output growth from '89 to '90; isn't that true?

12 A It does, indeed.

13 Q So based on this representation, it would be
14 illogical to conclude that local exchange carrier output
15 decreases necessarily occurred as a result of NRF,
16 wouldn't it?

17 A Yes, for two reasons:

18 First of all, this does not say that output
19 was decreasing. This says that the rate of increase was
20 decreasing, okay? We have to be clear on that.

21 Output for the LECs was increasing in each and
22 every one of these years. The only question was, what
23 was the rate of increase. And this simply shows that
24 the rate of increase was higher in some years than in
25 other years. But in each and every year, it was growing
26 at quite a substantial rate that averaged approximately
27 3 percent.

28 Q I appreciate that clarification,

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1 average for the years 1989 to 1993, we would find
2 average local exchange output growth to be 3.3 percent,
3 wouldn't we, subject to check?

4 A I will accept that subject to check.

5 Q So merely by moving the time period in which
6 we compute the averages, it would not appear, based on
7 average local exchange carrier output growth, that the
8 industry was achieving growth at lower rates, would it?

9 A Would you repeat, please, the two numbers that
10 you asked me to accept subject to check?

11 Q For the period 1985 to 1988, we would see an
12 average 3.4 percent growth. And for the period 1989
13 through '93, we would see 3.3 percent average growth.

14 A Well, 3.3 in fact is lower than 3.4; so I'm
15 afraid I would have to answer your question in the
16 negative.

17 Q In the negative for what is the equivalent of
18 a rounding error of .10 -- 01 percent?

19 A The decrease is smaller using your average
20 year period, sure.

21 Q Now, let's assume we move that time period
22 marker back even one more year.

23 Would you agree that, subject to check, the
24 average local exchange carrier output growth for the
25 period 1985 to 1987 was 3 percent?

26 A I'll accept that subject to check.

27 Q And would you also agree that the average for
28 the corresponding period 1988 to 1993 would be

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1 3.6 percent average local exchange carrier output
2 growth?

3 A I would accept that subject to check.

4 Q Now, merely by moving that period average line
5 back one more year, wouldn't it give the appearance that
6 the average local exchange carrier output growth was
7 increasing for the period since 1988?

8 A Well, accepting those numbers subject to
9 check, yes, 3.6 is higher than 3.0, which would verify
10 your hypothesis that output growth was higher in the
11 1988 to '93 period than it was in the '85 to '87
12 period.

13 I would certainly agree with that.

14 Q And if, in looking at Chart 15 -- or Chart 1
15 on page 15 -- the Commission were to look at that longer
16 period of average local exchange carrier output growth
17 from the period '88 to '93, and in particular look at
18 the change from the period of 1992 to 1993, the
19 Commission could conclude that local exchange carrier
20 output growth was increasing as a trend; could they
21 not?

22 A Not as a trend. I wouldn't say -- I would
23 accept the weaker statement that you made, that the
24 output growth rate was higher from the '88 to '93 period
25 than the '85 to '87.

26 Actually, that would only reinforce my
27 conclusion, however, that I think it's -- since you're
28 now saying the most recent output growth rate is

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1 A Well, I was asking two different questions.
2 When I -- when I chose the periods.

3 And, as I indicated before, I put a
4 substantial weight on data going all the way back to
5 1948 in looking at the TFP differential, and I think
6 that's important information.

7 And, in my opinion, it's important to give
8 weight to all those years to in fact reflect the fact
9 that this has been a very stable TFP growth
10 differential.

11 And this is a remarkable fact that we have
12 before us, that all the way back to the early post-war
13 years, the telephone industry has been able to achieve
14 Total Factor Productivity growth approximately three
15 times as rapid as the rest of the economy. And I think
16 that's remarkable.

17 There's no other industry that has been able
18 to achieve that kind of Total Factor Productivity growth
19 record, and I think that's very important for this
20 Commission to consider in setting the appropriate
21 X-factor.

22 Q Let me direct your attention to page 20 of
23 your exhibit, specifically the second full paragraph ,
24 which has the lead California Economic Growth has
25 Slowed.

26 In that paragraph you make two statements:

27 "The general economic climate
28 has a effect on telephone company

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1 have been subsequent forecasts, I understand.

2 Q All right. I just wanted to make sure.

3 As I said, there was a similar cite in Dr.

4 Schmalensee's -- I am sorry. I am going to butcher his

5 name one more time -- Dr. Schmalensee's testimony, and I

6 just wanted to clarify whether a similar correction

7 needed to be made to yours.

8 And your testimony is you believe that's an

9 accurate citation.

10 A Yes, that's what I relied upon.

11 MS. BURDICK: That's all I have, your Honor.

12 ALJ REED: Okay. Thank you, Ms. Burdick.

13 Well, we will recess for the day and return

14 tomorrow at 9:00 o'clock.

15

16 (Whereupon, at the hour of 4:27 p.m.,
17 this matter having been continued to
18 9:00 a.m., September 27, 1995 at
19 San Francisco, California, the Commission
20 then adjourned.)

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1 SAN FRANCISCO, CALIFORNIA, OCTOBER 3, 1995 - 9:00 AM

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3 ADMINISTRATIVE LAW JUDGE REED: On the record.

4 Good morning.

5 This is the continuing evidentiary hearing

6 Investigation 95-05-047.

7 Yesterday, at the end of the day, before we
8 broke, we handled some motions to strike testimony, and
9 then that was -- just before that was resolved, we had
10 Dr. Duncan on the witness stand.

11 And we asked Dr. Duncan to return today for
12 some questions.

13 Good morning, Dr. Duncan.

14 THE WITNESS: Good morning.

15 ALJ REED: If you will remember, you are under
16 oath.

17 GREGORY M. DUNCAN

18 resumed the stand and testified further as follows:

19 ALJ REED: And Mr. Faber is going to question you
20 this morning.

21 MR. FABER: Thank you, your Honor.

22 CROSS-EXAMINATION

23 BY MR. FABER:

24 Q Good morning, Dr. Duncan.

25 A Good morning.

26 Q Good to see you.

27 You may recall, my name's Joe Faber. I
28 represent the California Committee for Large

PUBLIC UTILITIES COMMISSION, STATE OF CALIFORNIA
SAN FRANCISCO, CALIFORNIA

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1 Telecommunications Consumers in this proceeding.

2 I am going to ask you some questions about
3 your Exhibits 37 and 38, some of the statements that you
4 make in those exhibits.

5 Now, you state that you work for GTE Labs; is
6 that right?

7 A That's correct.

8 Q And how long have you worked for GTE Labs?

9 A Since July of 1987.

10 Q And would you tell us briefly what GTE Labs
11 is?

12 A It's a research organization within GTE
13 Corporation. It's, I believe, a separate corporation.
14 GTE is the holding company. It performs research on
15 everything from economics and econometric methods to, in
16 the old days, fiberoptic switching and ceramics.

17 These days we are less in the physics and
18 chemistry realm, more in software development, software
19 design, that sort of thing.

20 It's a quasi-academic group. Most of us
21 have or have had academic appointments or have joint
22 appointments between universities as time allows: write
23 papers, do internal reports, do internal consulting as
24 needed for the business units, including GTE
25 California.

26 Q In your role, you provide research assistance
27 to GTE's telephone operations all over the country?

28 A Yes.