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Confidential cross examination

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CONFIDENTIAL CROSS-EXAMINATION

BY MR. ROSENBERRY:

Q. Mr. McKenzie, from my brief calculations, it appears that on Original Sheet No. 33, the minimum annual charge to someone using the service under Paragraph 4.2A would be $38,400 a year, and I got that by multiplying 2,200 by 12 and adding 12,000 as a nonrecurring monthly charge.

A. That's not correct.

Q. Okay. Is the nonrecurring charge a monthly charge, or an annual charge only?

A. No, it is a one-time charge for establishing the service.

Q. Okay. So if you have the service for five years, you still only have the one-time $1,000 nonrecurring charge.

A. Correct. If during that five years you put it in and take it out five times, you would incur five of those.

Q. And the same would be true for the nonrecurring charge for educational institutions.

A. That's correct.

Q. Would it be -- Could we determine the cost per hour of use by dividing, for example, the monthly recurring fixed rate under Option A, by the number of hours, to come up with an hourly rate?

A. You could do that mathematical calculation; I'm not sure what it would tell you other than if you used the network for 80 hours, on the average it costs you X dollars.

Q. Well, is the monthly recurring fixed rate for the first 80 hours of use based on an estimate of the cost to the Company to provide the service by hour?

A. It's based on an estimate of a cost to provide the service, and included in that is 80 hours worth of usage.

Q. So you would be recovering both fixed costs and a variable usage cost over the first 80 hours.

A. That's correct.

Q. And the charge per hour after 80 hours would be based on variable costs only?

A. When you say "the charge per hour," you mean the price?

Q. The price per -- That's right, the price per hour, which under Option A, for example, is $10 an hour per port, that would reflect recovery of variable costs only.

A. Once we have recovered the fixed costs in the monthly recurring fixed rate, the -- my attempt with the monthly recurring per hourly rate after the first 80 hours was to be sure that that was priced at least as high as the cost for the -- the variable cost per hour.

Q. Well, then, in effect, couldn't we identify the difference between the fixed cost recovery over the first 80 hours and the variable cost recovery by comparing the rate for the use after 80 hours with the rate that you would develop by dividing the monthly recurring fixed rate by 80 hours?

A. Again, you could do that mathematical exercise, but I'm not sure exactly what that would tell you.

Q. Well, you're saying it wouldn't necessarily identify the amount of dollars recovered over the first 80 hours for fixed charges as compared to the variable cost of providing the service?

A. It deals with the amount of money that would be charged, but it doesn't really deal necessarily with the cost. It would be one thing if the prices were set at cost, then you could do that calculation.

Q. You're saying that the prices for the first 80 hours are not set at cost?

A. I think I've testified that they are priced above LRSIC, not at LRSIC.

Q. How far above LRSIC, if you know?

A. Are we talking a school that gets the 10 percent discount?

Q. Well, as I understand it, the school -- the high school, for example, would automatically get the 10 percent discount if it was receiving the video service under Option A.

A. A high school would, that's correct.

Q. Let's look at a high school then.

A. Okay. So they would pay 90 percent then, of the rate that's specified in the tariff.

Q. For the first 80 hours it would be 90 percent of sixteen-forty?

A. Correct. Which is $1,476.

Q. And would the 1,476 represent an amount that is above LRSIC?

A. Yes, it would.

Q. By how much?

A. Around a hundred dollars.

Q. Then subject to the calculations you have just given us, we could identify the -- Well, let me back up. Let me restate that.

Does the $10 per hour rate for use after 80 hours reflect a LRSIC-identified cost, or is it above LRSIC?

A. It's above LRSIC.

Q. By how much, if you know?

A. I don't have the cost material with me.

(Pause.)

Q. You just can't recall at this time?

A. I can't give you a precise number.

Q. How about an order of magnitude; 10 percent, perhaps, above LRSIC?

A. It's more than that.

Q. Can you be more specific then?

A. As I recall, and I've seen various number as the study work has progressed, but the usage costs have consistently been less than $5 per hour. And the rate that I'm proposing would be, to an educational institution with a discount, $9 per hour.

Q. Under Option B would a high school be eligible for a 10 percent discount for the monthly recurring fixed rate per port?

A. Yes, they would.

Q. And would they also be eligible for a 10 percent discount from the monthly recurring hour of use as well?

A. Yes, they would.

Q. Is the monthly recurring fixed rate per port that is identified in the protective tariff also above LRSIC, or under Option B?

A. Are you asking me whether that would cover all of

the fixed costs?
Q. Let's start -- Let's start with that, that would be fine.
A. I don't believe that it would cover all of the fixed costs, no.
Q. To what extent or to what degree would fixed costs not be recovered through the monthly recurring fixed rate per port under Option B?
A. Keep in mind, Mr. Rosenberry, that you can't buy -- under Option B you've got to buy not only the fixed rate, but a minimum of 80 hours on the average, so the whole thing is constructed within the idea that you would pay for -- your given monthly charge would reflect the monthly recurring fixed rate per charge plus the applicable hours for that particular month, again, with discounts as appropriate.
So I really didn't calculate or didn't compare that $440 price or 90 percent of that number, in the case of a discount, to the fixed cost because you have to buy both usage and the fixed component.
Q. And you have to have revenue under Option B that totals at least $19,680 annually --
A. That's correct.
Q. -- on average; is that right?
A. That's correct.

Q. And would the 19,680 be priced such that it would recover the fixed costs associated with providing service under Option B plus monthly costs for usage?
A. Up to 80 hours, yes.
Q. Up to 80 hours?
A. Yeah.
Q. And is that 19,680 equal to, in excess of, or less than LRSIC?
A. It would be in excess of LRSIC. Because the 19,680, divided by 12, is the sixteen-forty per month that we were talking about earlier.
Again, all those numbers are State-chartered secondary school as we've been discussing, buying them, that institution would actually pay less than those prices.
Q. And that 10 percent both under Option A and Option B would both be in excess of LRSIC.
A. Yes.
MR. ROSENBERRY: Thank you, I have no further questions.
EXAMINER FENLON: Mr. Rawlings, is there any redirect under the closed portion?
MR. RAWLINGS: No redirect, your Honor.
End of Confidential Portion ********