

General KLOCKO. First let me state that the subscribers' rates are sent to the Department of Defense once a year. We determine a rate which will make the lease cost paid from the industrial fund to zero balance as best we can judge it.

Mr. ROBACK. Do you actually negotiate each year with the telephone companies?

General KLOCKO. No, sir. There is a flat price to the AUTOVON subscribers.

Mr. ROBACK. Flat price. Unless and until that is changed, you keep on paying that?

General KLOCKO. Yes.

Mr. ROBACK. That is negotiated without any time limit?

General KLOCKO. Yes.

Mr. ROBACK. How do you know in any given case that you are not overcharged? Whether the rates are high or not. Do you have any—on what basis could you identify whether you are getting a fair charge?

General KLOCKO. We have several processes where we can identify something.

Mr. ROBACK. Is there any way in which you audit costs? This is a special tariff, as you said. This is not a commercial tariff?

General KLOCKO. That's correct.

Mr. ROBACK. This AUTOVON system was developed largely for the military, was it not?

General KLOCKO. Completely for military.

Mr. ROBACK. Even though it might be used commercially. Technically there is no reason why it couldn't be used for commercial purposes, is there?

General KLOCKO. No.

Mr. ROBACK. But in any case, now you are the chief customer of AUTOVON?

General KLOCKO. Yes, sir.

Mr. ROBACK. And a rate has been developed in recognition of that fact.

Mr. ERLBORN. Can I interrupt a moment? You may be confusing two things. There is one annual leasing cost to the commercial company that operates the system. Isn't that right?

General KLOCKO. Yes.

Mr. ERLBORN. This is something you negotiate and pay an annual cost, regardless of the amount of traffic?

General KLOCKO. That's correct.

Mr. ERLBORN. The tariff cost you're talking about is completely internal, isn't it? Isn't that what the system charges the individual base or user? In other words, the tariff is not paid to the commercial company that operates the system. The tariffs are completely internal, aren't they? Distribution of the cost among the users?

General KLOCKO. That's correct.

Mr. ROBACK. Maybe I'm using the wrong word, but how do you know that the amount that you pay the telephone company is reasonable?

Mr. ERLBORN. Because it's a leased line. There is so much cost for a leased line.

General KLOCKO. So much for the switches and for the transmission media between the switches.