

Exhibit No. :
Witness : Michael Jay Ensrud
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Case No. : TW-97-333

COMPTEL-MO

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REBUTTAL TESTIMONY

OF

MICHAEL JAY ENSRUD

Mission, Kansas
May, 1997

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BORGHARDT
Public
Missouri
Expires 3/11/88

TESTIMONY OF MICHAEL J. ENSRUD

1 Q. WHAT IS YOUR NAME, TITLE AND BUSINESS ADDRESS.

2 A. My name is Michael Jay Ensrud. My title is Regulatory Analyst with CommuniGroup,
3 Inc. (CGI). My business address is 6950 West 56th Street, Mission, Kansas 66202.

4 Q. ARE YOU THE SAME PERSON WHO SUBMITTED WRITTEN DIRECT
5 TESTIMONY ON BEHALF OF COMPTel AS PART OF THIS PROCEEDING?

6 A. Yes.

7 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8 A. I want to address several subjects raised in the testimony of the other witnesses. Those
9 subjects are:

- 10 • Southwestern Bell's proposal to establish LATAwide COS.
- 11 • Statewide COS.
- 12 • The effects of the existence of a mismatch of flat-rated COS revenue stream
13 coupled with a usage-sensitive underlying access cost.
- 14 • Southwestern Bell's proposed prohibition to resale of COS.
- 15 • The applicability of access charges to COS / COS is a toll service.
- 16 • The merits of reducing access rates.
- 17 • The need for a more stringent "community of interest" standard and its support
18 in the testimony.
- 19 • The anti-competitive effects of LATAwide COS.

I. **SOUTHWESTERN BELL'S PROPOSAL TO ESTABLISH LATAWIDE COS**

Q. WHAT IS YOUR REACTION TO SOUTHWESTERN BELL'S PROPOSAL TO ESTABLISH LATAWIDE COS?

A. I am strongly opposed to such an offering.

Q. PLEASE EXPLAIN.

A. The proposal is unfair and it is anti-competitive. Bell witness Bourneuf sets forth Bell's terms and conditions for establishing LATAwide COS in her direct testimony commencing on page 33, line 1. Part of the proposal is that a \$30.00 residential/ \$60.00 business LATAwide COS rate¹ be established. Yet at the same time, Bell witness Richard Taylor puts forth a very compelling argument that Bell is being disadvantaged as a PTC in that it offers service under a mechanism where it cannot collect enough via COS charges to pay the underlying cost of access. (Taylor/Direct/pages 3-8). When Bell is acting as the Primary Toll Carrier (PTC), Bell is paying real dollars to the independent LECs. When Bell provides COS between Bell exchanges, it is expected to "impute" access charges into the rates it charges. However, Bell is not "cutting" a check to a different entity when the imputation criteria is used. The dichotomy between paying access and "imputing" access seems to color Bell's assessment of COS. This may be the reason why Bell can endorse a \$30.00 LATAwide rate, but strongly objects to the existing mechanism where it actually pays for access.

¹Bourneuf/Direct/page 40 - line 4

1 The rule that the rate charged for a service should cover the cost of underlying access
2 charges is designed to act as a safeguard against anti-competitive practices. The essence
3 of imputation is that a LEC should not charge more in monopolistic "wholesale" rates
4 (when selling a component of service) than what the LEC charges at the "retail" level
5 when selling to the consuming public.

6 Q. ARE THE RATES FOR SERVICE PROPOSED BY BELL REASONABLE?

7 No. Figures provided by other witnesses demonstrate the economic absurdity, in terms
8 of access costs versus COS revenues, of a \$30.00 residential / \$60.00 business
9 LATAwide COS rate.

- 10 • The typical COS customer places 7.75 hours of calling per month. (Robert
11 Schoonmaker/page 11 - line 21) [This figure represents a far smaller calling
12 scope than the whole LATA. Once the whole LATA is incorporated this figure
13 is likely to expand dramatically.] 7.75 hours equates to 465 minutes.
- 14 • Bell's composite (both originating and terminating) access rates average between
15 a \$.055093 minimum and \$.099893 maximum per minute. (My Direct
16 testimony/page 18 - lines 4 though 7)

17 For a CompTel member to respond with an identical offer to that which Bell is
18 proposing, and in turn be competitive with Bell's LATAwide COS rates, that member
19 would need to charge a rate of \$30.00 for residential and \$60.00 for business. Such
20 rates would limit the member to paying the following in access charges prior to the cost
21 of access exceeding the COS end-user rate which would be "capped" at the \$30.00 for

1 residential customers. We could pay no more in access charges in relation to the flat-
2 rated service:

3 **RESIDENTIAL** \$30.00 / 465 minutes = \$.064516 per minute.
4

5 Under this scenario the service can, possibly, cover access but is not assured to. If the
6 transport requires long haul (in excess of 25 miles) it will not cover access.
7

8 More important, when COS expands to cover the whole LATA, as opposed to a select
9 group of exchanges within the LATA, the usage can only expand. Assuming the \$30.00
10 rate, the usage needs only grow by slightly more than 17%² in order to reach a point of
11 break even. That is a rather small growth factor until access costs (wholesale cost)
12 exceed the \$30.00 (retail rate).

13 Q. ARE THERE OTHER FACTORS TO CONSIDER IN YOUR "BREAK EVEN"
14 ANALYSIS?

15 A. Yes. The preceding calculation is extremely conservative. It literally represents the
16 "best-case" scenario. There are other matters to consider:

- 17 • \$.083558 per minute terminating access charge is the "average" for the four
18 independent LECs which Bell studied. (Taylor/Direct/page 7 - line 7). Since
19 Mr. Taylor compares this figure to Bell's \$.034313 per minute termination costs,

²\$30.00 / \$.055093 per minute (lowest priced possible combined access rate) =
544.54 minutes. 544.54 minutes to break even / 465 minutes current usage = 1.1710 or
17.10% increase.

1 the logical conclusion is that Bell considers the \$.083558 per minute figure to be
2 representative of independent termination costs.

- 3 • For Bell's originating per-minute access cost, the following calculation can be
4 made:

5	Composite Rate ³	
6	<u>Miles</u>	<u>(Originating)</u>
7		
8	0-1	.023480
9	1-25	.026180
10	25-50	.034680
11	<u>50+</u>	<u>.045880</u>
12	TOTAL	.13022 / 4 = .032555

- 13 • Bell has 75% of the access lines in Missouri. Therefore, independent LECs have
14 the remaining 25%. (Taylor/Direct/page 13 - line 7)

15 Bell proposed that it would only offer (originate) its LATAwide COS offering from its
16 exchanges. Therefore, the originating cost per minute would average the \$.032555 as
17 calculated above.

18
19 The terminating cost would be as follows:

³These figures are found in my Direct testimony/page 18 - lines 4 through 7.

1	75%	*	.034313 ⁴	=	\$.025735	Bell's portion
2	<u>25%</u>	<u>*</u>	<u>.083558⁵</u>	=	<u>\$.020889</u>	Independent's portion
3	Composite terminating rate			=	<u>\$.046624</u>	

4

5 Therefore, by using the aforementioned \$.032555 Bell rate (average originating access

6 minute for Bell's exchanges) plus the \$.046624 composite termination (weighted average

7 for Bell and independent LEC), we can calculate the "average" per-minute cost to both

8 originate and terminate a LATAwide access minute. That composite originating-

9 Bell/terminating-Bell and independent access rate would average \$.078179. In other

10 words, CompTel members can expect to pay an average of \$.078179 per minute in

11 access costs if they were to offer a LATAwide service.

12 Q. IN YOUR OPINION CAN COMPTTEL MEMBERS DUPLICATE BELL'S OFFERING

13 UNDER THESE CONDITIONS?

14 A. No they could not. The "break-even" calculation would be:

15
$$\$30.00 / \$0.078179 = 383.73 \text{ minutes}$$

16 In other words, after 384 minutes of usage, a CompTel member would pay Bell and

17 independent LECs more than \$30.00 in access charges. Yet to be competitive with Bell's

18 proposal, the member could only charge \$30.00 per month. Remember, in today's

19 environment, with COS calling scopes much smaller than in a LATAwide scenario,

⁴Taylor/Direct/Page 7 - line 7

⁵Taylor/Direct/Page 7 line 7

1 customers of COS are, on the average, generating 7.75 hours or 465 minutes of
2 originating traffic. The 465 minutes would equate to \$36.35 in access charges per
3 month. I suspect however, that the access charges for "465 COS minutes" would exceed
4 \$36.35 per month.

5 Q. WHY WOULD ACCESS CHARGES FOR THE AVERAGE 465 MINUTES EXCEED
6 \$36.35 PER MONTH?

7 A. I interpret the testimony regarding the 7.75 hours or 465 minutes to be "conversation"
8 minutes - meaning actual talking minutes. There are a number of activities that generate
9 access minutes but no conversation minutes take place. Examples are: #1) ring-no
10 answer time, #2) time associated with recorded announcements - "the number you
11 reached is no longer in service", etc. #3) set-up time and #4) busy-signals. It is
12 estimated that between 13% to 18% of access minutes is considered to relate to such
13 activity.

14
15 Therefore, if 7.75 hours or 465 minutes of outbound usage equates to 465 "conversation"
16 minutes, a carrier would experience more access minutes than 465 providing an
17 equivalent service. A more realistic expectation is that 525 access minutes ($465 * 1.13$
18 $= 525$) would be experienced in relation to 465 conversation minutes.

19
20 Therefore, a carrier could expect to pay Bell and the independent LECs access fees
21 amounting to:

1 525 access minutes * \$.078179 = \$41.04 month access fees.

2 The testimony on file in this case supports a reasonable expectation that a CompTel
3 member would pay on average \$41.04 in access charges to provide a service that
4 averages 465 "conversation" minutes each month. According to the testimony on file,
5 465 "conversation" minutes are reflective of out-bound calling taking place today under
6 the typical COS route.

7
8 The corresponding revenue stream that relates to the \$41.04 access expense can be no
9 more than \$30.00 from a residential end user, assuming Bell's LATAwide proposal is
10 accepted. A CompTel member must match Bell's offer to have a viable product.
11 Therefore, the rate the member could charge for corresponding service would be
12 "capped" by Bell's rate of \$30.00 per month.

13 Q. IS THERE A FAIR REPRESENTATION OF THE COST OF A LATAWIDE COS
14 SERVICE IF APPROPRIATE ACCESS IS APPLICABLE TO THOSE PROVIDING
15 THE SERVICE?

16 A. No. Up to now, I have used figures that are derived from the current COS plans which
17 have calling scopes far less than LATAwide COS. There will be additional minutes
18 associated with the expanded calling scopes that are part of LATAwide COS. These
19 additional minutes must be factored into any break-even calculation that truly reflects the
20 cost of underlying access. Remember the \$41.04 monthly costs relate only to existing
21 volumes.

1 Q. WHAT VOLUMES ARE APPROPRIATE FOR A LATAWIDE SERVICE?

2 A. I do not know. Initial estimates of a doubling to quadrupling are not out of the realm
3 of possibility, given the larger area and the tendency to have more calls, and calls of a
4 longer duration, when there is no usage-sensitive charges associated with placing the call.

5 The following chart shows the appropriate cost of access assuming various calling volume
6 increases:

PERCENT INCREASE	CURRENT COST	PROJECTED COST	MAXIMUM REVENUE	DIFFERENCE (LOSS)
25%	\$41.04	\$53.30	\$30.00	(\$23.30)
50%	\$41.04	\$61.56	\$30.00	(\$31.56)
75%	\$41.04	\$71.82	\$30.00	(\$41.82)
100%	\$41.04	\$82.08	\$30.00	(\$52.08)
200%	\$41.04	\$123.12	\$30.00	(\$93.12)
300%	\$41.04	\$164.16	\$30.00	(\$134.16)

16 Q. HOW WILL COMPTTEL MEMBERS REACT TO A LATAWIDE COS OFFERING?

17 A. While there may be no statutory requirement that CompTel members provide such a
18 service, nor any statutory prohibition, the economics of the situation will prevent them
19 from offering customers a service equal to the one Bell will be allowed to offer,
20 assuming the Commission allows Bell to implement LATAwide COS.

21
22 There is no economic incentive for CompTel-Mo members to even attempt to match such
23 an offer, even if Bell is given the "green light" to proceed with such an unfair proposal.

1 CompTel members are assured to incur more in access costs to provide such a service
2 than any potential revenue that may be derived, since the dominant intraLATA provider
3 determines the "umbrella" rate (the rate above which no carrier can charge and expect
4 to have any customers) of \$30.00. Yet the CompTel member will incur access expense
5 well above that level. The only logical choice is to not offer such service and surrender
6 existing traffic.

7 Q. WILL THE FORCES OF FREE ENTERPRISE CAUSE OTHER COMPANIES TO
8 PROVIDE ALTERNATIVES TO BELL'S SERVICE - WHETHER IT BE EXISTING
9 COS OR THE PROPOSED LATAWIDE VERSION.

10 A. No. The free enterprise system drives the price of services toward underlying cost. It
11 is fair to expect reductions in price in a situation where the competitor is collecting
12 revenue well in excess of underlying costs. Market forces can be expected to drive
13 prices down in those circumstances.

14
15 It is a false expectation that prices will fall in a competitive environment if the service
16 is already priced below underlying cost and if there is no reasonable expectation that cost
17 will be reduced in the foreseeable future. No new entrant is likely to provide a like
18 service under these circumstance. Therefore, there will be no competitive environment.

19
20 In fact, in relation to providing service to independents, Bell witness Taylor (starting on
21 Direct/page 3 - line 16) points out the losses that Bell incurs providing COS to the

1 independent LECs. From Bell's testimony, it is fairly evident that there is nothing Bell
2 can do in this situation to reduce costs in such a way as to make the existing service
3 profitable. Since the access cost charged by the independent LECs (a cost completely
4 beyond Bell's control) exceeds Bell's revenue (which is dictated by regulation and not
5 subject to market conditions), Bell is literally assured to lose money on these COS routes
6 unless some regulatory relief is granted. In his testimony Mr. Taylor seems to be
7 seeking relief, and he may be saying that Bell would not voluntarily offer service under
8 present conditions.

9
10 Through its filed testimony, Bell is claiming that the current subsidy that it is required
11 to generate is an "unacceptable result". In this respect, Bell and CompTel members
12 share something in common: CompTel members are as much opposed to the proposed
13 LATAwide COS as Bell is to providing existing COS to the independent LECs. In both
14 instances the cost of access is greater than the revenue received for the service. Mr.
15 Taylor states:

16 *"Q. WHAT FACTORS CONTRIBUTE TO THIS UNACCEPTABLE RESULT?"*

17 *A. It is simply a matter of having usage sensitive compensation at full access*
18 *rates which significantly exceed the average revenue per minute of the flat*
19 *rate priced COS service."*

20 (Taylor Direct/page 6 -line 22)

1 He then goes on to demonstrate that Bell will average \$.017 per minute COS revenue in
2 a "two-way" scenario and \$.034 per minute revenue in a "one-way" scenario. He points
3 out the inequity of collecting these minuscule revenues when he compares Bell's
4 terminating access rates with the access rates of the four SC's in his analysis:

5 *"SWBT's terminating switched access rate per minute is .034313 compared to an*
6 *average of approximately \$.083558 for the four SCs in this analysis".*

7 (Taylor Direct/page 7 - line 7)

8 Q. DO COMPTTEL MEMBERS AND BELL SHARE ANY OTHER POSITIONS IN
9 COMMON?

10 A. Yes. There is commonality between positions when Mr. Taylor states:

11 *"A. I have demonstrated that COS, as presently configured, is a highly*
12 *subsidized service due largely to the intercompany compensation*
13 *mechanism. I have explained that the current intercompany compensation*
14 *mechanism is not satisfactory because it causes COS providers like SWBT*
15 *to payout substantially greater amounts in access payments than they*
16 *receives in COS revenue."*

17 (Taylor Direct/page 14 - lines 4 through 8)

18 What Mr. Taylor is complaining about is a relevant consideration for CompTel members
19 whether viewing entry into the existing COS scenario or the proposed LATAwide COS.
20

1 It is not reasonable to expect new entry if conditions are such that a new entrant has
2 every expectation of losing money. The profit motive would dictate no entry, if the new
3 venture is perceived as a sure loser. If a service is heavily subsidized when offered by
4 others, or if one supplier has a bottle-neck monopoly on a necessary wholesale
5 component, true market forces cannot work. Rather simple analysis demonstrates that
6 CompTel members would lose money offering COS in its present form, and would lose
7 much more in a LATAwide scenario. If certain providers have unique advantages that
8 literally assure that their competitors will lose money if they offer similar service, it is
9 unreasonable to expect new entrants to vie for customers in such a scenario.

10 Q. YOU HAVE ELIMINATED BUSINESS CUSTOMERS FROM YOUR
11 CALCULATION. IS THERE ANY REASON TO DO SO?

12 A. Yes. There are two reasons. First, the calculations for business customers would be the
13 same, excepting the monthly rate for service, as those already set out for residential
14 customers. Second, the vast majority of COS users are currently residential customers.

15 Mr. Schoonmaker confirms this:

16 *"Approximately 94% or over 16,000 COS subscribers are residence subscribers."*

17 (Schoonmaker Direct/Page 11 - line 20)

18 Q. DO YOU HAVE ANY CLOSING COMMENTS CONCERNING BELL'S PROPOSAL
19 FOR LATAWIDE COS?

20 A. Yes. It is ironic that Bell would make such a proposal while, at the same time, Bell
21 validly points out to the Commission the flaws and inequities of being forced to be the

1 PTC carrier for independent LECs who act as the SC in a number of COS arrangements.
2 Bell objects to being required to serve in such a situation because it negatively impacts
3 its profitability. Such a position is inconsistent.

4
5 Bell proposes that existing toll traffic be taken from carriers, thereby depriving them of
6 traffic won in open competition. CompTel members cannot combat this taking of
7 "normal" toll by offering a service similar to Bell's because of the "price squeeze"
8 between flat-rate COS charges and usage-sensitive access costs. However, Bell objects
9 for itself when placed in a similar situation where independent LECs are the entity
10 collecting the access charges.

11
12 **II. STATEWIDE COS**

13 **Q. WHAT IS YOUR POSITION CONCERNING POSSIBLE STATE-WIDE COS?**

14 **A.** I oppose state-wide COS on much the same grounds as I oppose LATAwide COS.
15 Without burdening the Commission with further calculations, an even more negative
16 situation exists, proportional to whatever degree the COS calling scope is expanded.
17 Therefore, the losses from a state-wide proposal are very likely to exceed the losses
18 projected for a LATAwide calling scope.

19 **Q. ARE THERE PROBLEMS UNIQUE TO STATE-WIDE COS?**

1 A. Yes. As Bell witness Debbie Bourneuf⁶ pointed out, Bell is currently constrained by the
2 LATA boundaries. It could not offer such a service. It would be discriminatory to
3 require non-dominant carriers to provide state-wide COS at a loss, but exempt Bell from
4 doing so. Again, Bell can implement and subsidize such a service which contains
5 mandated losses in a manner that no carrier can.

6
7 **III. EFFECTS OF THE MISMATCH OF FLAT-RATED COS REVENUE STREAM**
8 **COUPLED WITH A USAGE-SENSITIVE UNDERLYING ACCESS COST**

9 Q. WHAT IS THE PRIMARY OBSTACLE TO AN ATTEMPT BY COMPTTEL
10 MEMBERS TO OFFER AN EQUIVALENT TO COS SERVICE?

11 A. There is a mismatch between the revenue stream that CompTel members receive if they
12 offer a flat-rated service and the underlying expense that they would incur if they were
13 to offer COS in an environment where they pay usage sensitive access rates. The
14 economic reality is that the cost of providing the service has the potential to exceed (in
15 some scenarios - dramatically exceed) the revenue that will be generated.

16
17 The calculations, present in both my rebuttal testimony and my direct testimony,
18 demonstrate the unsoundness from an economic perspective of offering the service.
19

⁶See (Bourneuf Direct/page 33 - line 8)

1 While other providers can receive subsidy when they offer such an economically unsound
2 proposal, CompTel members cannot. Every service a CompTel member offers is subject
3 to competition and cannot be considered as a source of subsidy.

4 Q. DOES ANY OTHER WITNESS RAISE THESE CONCERNS?

5 A. Yes. GTE witness, Mary L. Kahnert states the following:

6 *"GTE agrees that the current compensation mechanism, namely intrastate*
7 *switched access charges, is the appropriate compensation mechanism. However,*
8 *this perpetuates the mismatch of a flat rate revenue stream and usage sensitive*
9 *compensation obligation, and the higher the access rates, the greater the*
10 *problem."*

11 (Kahnert Direct/page 4 - line 18)

12 ATT witness Larry Lovett states:

13 *" In addition, any determination of a mandatory flat rate would put those IXC's*
14 *who must pay today's inflated access rates at an insurmountable competitive*
15 *disadvantage with those competitors who merely impute their own access charges*
16 *in determining price."*

17 (Lovett Direct/page 7 - line 1)

18 As already mentioned, much of Richard Taylor's testimony boils down to the inequity
19 of Bell paying usage sensitive access rates, but only collecting COS revenues.

1 **IV. SOUTHWESTERN BELL'S PROPOSED PROHIBITION TO RESALE OF COS**

2 Q. BELL PROPOSES THAT IF ITS LATAWIDE COS IS MADE AVAILABLE, THAT
3 IT BE PROHIBITED FROM BEING RESOLD. DO YOU AGREE THAT SUCH A
4 PROHIBITION SHOULD BE ALLOWED?

5 A. No. There is no basis for such a limitation. I strongly believe that the service should
6 be available to others to use in their networks. In this regard, consider that Bell
7 classifies COS as a local service. Ms. Bourneuf states:

8 *"SWBT believes that COS should be classified as **local**, and offered by the*
9 *originating exchange LEC."*

10 (Bourneuf Direct/page 18 - line 13) (emphasis added)

11 While I disagree with that classification, if Bell is correct in that classification, the 1996
12 Federal Act contains the following relevant requirements:

13 *"Sec. 251 (b) Obligations Of All **Local** Exchange Carriers-*

14 *(1) RESALE - The duty not to prohibit, and not to impose unreasonable or*
15 *discriminatory conditions or limitations on, the resale of its telecommunications*
16 *services."*

17 (emphasis added)

18 *"Section 251 (c) Additional Obligations Of Incumbent **Local** Exchange Carriers -*

19 *In addition to the duties contained in subsection (b), each incumbent local*
20 *exchange carrier has the following duties:*

21 *(4) RESALE - The duty -*

1 (A) to offer for resale at wholesale rates any telecommunications service
2 that the carrier provides at retail to subscribers who are not
3 telecommunications carriers;"

4 (emphasis added)

5 Clearly CompTel members can resell this "local" telecommunications service.

6 Q. WHAT IS YOUR OPINION REGARDING BELL'S PROPOSED AGGREGATION
7 RESTRICTIONS?

8 A. They are totally unjustified. There is no known statutory prohibition that would prevent
9 a CompTel member from purchasing a local service and offering "non-toll", inter-
10 exchange, local service - just as Bell is proposing. CompTel members are free to resell
11 that "local service" on an aggregate basis. The only known prohibition on local resale
12 is to purchase service for one category of customer, but resell to a different category.
13 We may have to segregate categories of customers (business vs. residential) so that we
14 could aggregate usage to specific categories. So long as the provider of the services met
15 all the legal requirements to provide local service, a different than "normal" form of
16 local service is allowed.

17
18 Indeed, such deviation was anticipated and encouraged in order to bring about
19 competition.

20 Q. DOES BELL EVER ADVOCATE THAT NOT ALL VERSIONS OF COS NEED BE
21 THE SAME?

1 A. Yes. Ms. Bourneuf states:

2 *"On the other hand, with the encouragement of increased competition in the*
3 *telecommunications market generally, SWBT has a difficult time recommending*
4 *that all competitors must offer exactly the same service at the same price. Such*
5 *a position seems to defeat the purpose of allowing and encouraging competition,*
6 *and may well discourage the development of innovative, new customer choices."*

7 (Bourneuf Direct/Page 25 - line 2)

8 *"If the purpose of regulation is to imitate competition, and not the reverse, then*
9 *SWBT believes that now is the time to let competition and the market drive the*
10 *types of expanded calling options that are offered to customers. If competition*
11 *does not lead to a service that looks exactly like COS, then perhaps that will be*
12 *because customers will find other competitive services that meet their needs as*
13 *well or even better."*

14 (Bourneuf Direct/page 28 - line 8)

15 Allowing COS to be purchased as a local service and resold on an aggregate basis will
16 result in "innovative, new customer choices". In a resale environment, aggregation could
17 constitute the "alternative" form of COS.

1 version of the service, but expects those who compete against it to actually pay access
2 on the competitor's version of the service.

3 Q. DOES BELL MAKE ANY OTHER COMMENTS ABOUT THE WAIVER OF ACCESS
4 CHARGES?

5 A. Yes. Ms. Bourneuf testifies:

6 *"In a resale environment, SWBT believes the issue of access imputation is moot.*
7 *In its December 20, 1996 Order in Case No. TT-96-268, the Commission similarly*
8 *found that elimination of resale restrictions on flat-rated Designated Number*
9 *Optional Calling Plan resolved any concerns which may have existed regarding*
10 *imputation."*

11 (Bourneuf Direct/page 39 - line 15)

12 Again, I mention that Bell cites a case where access charges were waived in relation to
13 the imputation process. This was justified because when others resold this service, they,
14 likewise, are not required to pay access for the service in question. This is an essential
15 point. If Bell need not impute access charges, then those who purchase and aggregate
16 the service need not pay access charges.

17 Q. WHAT IS YOUR POSITION ON A WAIVER OF IMPUTATION FOR A BELL
18 VERSION OF COS WHILE IMPOSING ACCESS CHARGES ON COMPETITORS
19 WHO PROVIDE ALTERNATIVE COS?

20 A. Such a dual standard would be discriminatory and contrary to fair competition. There
21 must be a correlation between the applicability of imputation requirements when Bell

1 offers the service and an alternative provider being exempted from having to pay access
2 charges when it offers its version of COS.

3
4 I have described COS as being a service which would "reclassify such toll traffic into
5 something else - something that is neither 'toll', nor 'local' in the traditional sense"⁷.
6 Since COS replaced toll, I believe COS should, likewise, pay access. Further, COS is
7 interexchange in nature, which is another characteristic of toll service.

8
9 The central problem, as I have demonstrated, is the mismatch between the potential
10 revenue the service generates and the associated underlying cost of access. If access is
11 applicable, then the service becomes an absolute "loser" from a profitability perspective
12 at the rates dictated. If access is not required, then it may be profitable to offer a service
13 on a cheap, flat-rate basis. Therefore, reclassifying COS as a local service (eliminating
14 the need to apply access charges), as Bell recommends is a viable solution. However,
15 such a re-classification needs to also eliminate the applicability of access charges when
16 carriers offer COS on an aggregated basis.

17 Q. SHOULD COS BE SUBJECT TO ACCESS CHARGES?

18 A. Yes. While I am more concerned about consistent treatment (either the LEC imputes
19 access costs and carrier pays access, or neither the LEC nor the carrier is subject to

⁷(Direct/page 6 - line 8)

1 access costs when providing COS), if the question boils down to: "Do we advocate
2 application of access costs when setting COS rates?", the answer is "yes".

3
4 COS still remains closer to a toll service than a local service. Again, note that COS
5 displaces traditional toll service and the service is interexchange in nature. It is a service
6 that only benefits a small percentage of the customers who could avail themselves of the
7 service. GTE acknowledges⁸ that only 11.4% of the customers who could avail
8 themselves of COS, do exercise that option. Mr. Schoonmaker asserts⁹ that only 12%
9 of those who could subscribe to COS, actually avail themselves of that opportunity. If
10 COS was truly a local service which benefitted a reasonable, comprehensive "community
11 of interest", then a much greater percentage of those who could utilize COS would take
12 advantage of the opportunity to expand their "community of interest". The low "take"
13 ratio is an indication it is a toll service. The inference is that the vast majority of
14 customers consider "normal" toll service sufficient to fulfill their calling needs to those
15 locations. Again, this supports the point in my direct testimony, that COS benefits only
16 a select few but imposes costs on many others via subsidies.

⁸(Witness Kahart/Direct/Page 7 - line 5)

⁹(Schoonmaker Direct/page 12 - line 2)

1 However, given all that is said about the theoretical correctness of classifying COS as
2 a toll service, CompTel could accept a classification as "local" so long as that
3 classification eliminated the application of access charges to all providers of COS.

4 Q. HOW WOULD YOU INTERPRET THE LOW PERCENTAGE OF CUSTOMERS
5 WHO ACTUALLY SUBSCRIBE TO COS WHEN COMPARED TO THOSE WHO
6 HAVE THE OPPORTUNITY TO TAKE ADVANTAGE OF COS¹⁰?

7 A. I consider a low "take ratio" as evidence that the service is perceived by the majority of
8 customers as a toll service. Further, it is an indication that the majority of customers are
9 satisfied with traditional toll service. In a sense, the low "take ratio" is an indication that
10 COS routes should revert back to traditional toll routes.

11 Q. DO OTHER PARTIES TAKE THE POSITION THAT COS CAN BE CLASSIFIED AS
12 A TOLL SERVICE?

13 A. Yes. Other witnesses listed below take that position.

- 14 • David Jones (Direct/page 10 - line 2).
- 15 • Randy Klaus (Direct/page 3 - line 13)

16
17 **VI. THE MERITS OF REDUCING ACCESS RATES**

18 Q. IS THERE ANY MERIT TO REDUCING THE COST OF ACCESS ASSOCIATED
19 WITH THE PROVISION OF COS?

¹⁰This is sometimes referred to as the "take ratio" or "take percentage".

1 A. Yes. If the cost of associated access were reduced, it would become more economically
2 feasible to accomplish a "flat-rate" service. Again, let me return to my "break-even"
3 calculation from the start of this testimony.

4
5 In order to provide an "out-bound" only COS where the customer, on the average, makes
6 about 7.75 hours or 465 minutes of conversation per month¹¹ (which equates to 525
7 minutes of access) at \$30.00, the prices of access would need to be:

8
$$\$30.00 \text{ per month} \quad / \quad 525 \text{ minutes} \quad = \quad \$.0572 \text{ per minute}$$

9 for both originating and terminating access and include an "averaging" of both Bell and
10 independent access costs. Again, this reflects only the calling volumes taking place in
11 the existing geographic scope.

12
13 If the scopes are either doubled or tripled to reflect LATAwide calling, then the "break-
14 even" point changes as follows:

15
16 **DOUBLING CALLING SCOPES**

17
$$525 \text{ minutes} * 200\% \quad = \quad 1050 \text{ minutes}$$

18
$$\$30.00 \text{ per month} \quad / \quad 1050 \text{ minutes} \quad = \quad \$.0286 \text{ per minute}$$

¹¹According to Mr. Schoonmaker (Direct/Page 11- line 21) this figure represents the calling volume associated with the average monthly calling. It represents only "outbound" calling from the petitioning exchange.

TRIPLING CALLING SCOPES - % reduction required

$\$.07179 / \$.0191 = 375.86\%$ or a 275.86% reduction.

In other words, it would take dramatic reductions in access charges to make it likely that the revenues a CompTel member would receive from a flat-rated monthly COS charge (at \$30.00) would cover the underlying cost of access.

Q. IF THE COMMISSION WERE TO TAKE ACTION TO MAKE THE COST OF ACCESS COMMENSURATE WITH A LEVEL NECESSARY TO MEET "BREAK-EVEN" UNDER ANY OF YOUR AFOREMENTIONED SCENARIOS, WOULD COMPTTEL MEMBERS BE LIKELY TO OFFER A \$30.00 MONTHLY FLAT-RATED, LATAWIDE COS-LIKE SERVICE?

A. Probably not. This calculation merely calculates a cost associated with "breaking even" in relation to underlying access costs. While access cost is the single greatest cost of providing service, it is by no means the only cost. It is quite likely that if a service only covers the cost of access, but no more, a carrier may choose not to offer the service because it will still be perceived as a money loser. In other words, there must be a margin above the cost of access in order to entice a carrier to bear the risk of offering a service.

Therefore, there must be a margin between the cost of access and the \$30.00 monthly revenue stream that a LATAwide COS will generate, if others are to venture forth with a comparable offering.

1 Q. WHY IS THE DISCUSSION OF "BREAK-EVEN" AND MARGINS IMPORTANT TO
2 YOUR TESTIMONY?

3 A. If the lowering of access is the avenue which the Commission determines it wants to
4 pursue to solve the COS problem, then I want to emphasize two points:

- 5 • Access would have to be reduced dramatically as shown in my calculations to
6 reach a point where a \$30.00 monthly flat-fee will cover the underlying switched
7 access. A reduction in the magnitude of 150% or greater may be necessary to
8 merely cover underlying access.
- 9 • Merely covering access is no enticement to offer a comparable service.
10 Implementing reductions in access needed to reach a "break-even" point is a
11 significant step towards cost-based rates, but it is not a total solution. Additional
12 reductions, well beyond those necessary to establish "break-even", are absolutely
13 required to entice a carrier to enter into an arrangement where the revenue stream
14 for a flat-rated, unlimited calling service is limited to the \$30.00 a month range,
15 when the carrier is subject to a usage-sensitive access charge.

16 While I support an access reduction as a possible solution, the degree of reduction must
17 be significant if it is to have the desired results of a \$30.00 a month, LATAwide COS-
18 like service being offered in a competitive environment. Any lowering of access rates
19 that does not cover the break-even point plus provide a sufficient margin to cover other
20 costs beyond access and, in addition, generate a profit, will not act as motivation for
21 other providers to duplicate a \$30.00 LATAwide service proposed by Bell in this

1 proceeding. Restated, there is a threshold that must be reached to entice entry.

2 Anything less in the way access reduction will fail to motivate entry by competitive
3 carriers.

4 Q. DOES ANY OTHER WITNESS ADVOCATE ACCESS CHARGE REDUCTIONS?.

5 A. Yes. AT&T witness Mr. Lovett states:

6 *"AT&T believes that reduction of access charges to cost would eliminate the need*
7 *for mandated services. IXCs and LECs will be forced to bring their like service*
8 *prices down in order to compete for valuable customers."*

9 (Lovett Direct/Page 3-line 23)

10
11 **VII. THE NEED FOR A MORE STRINGENT "COMMUNITY OF INTEREST"**
12 **STANDARD AND ITS SUPPORT IN THE TESTIMONY.**

13 Q. YOU SUPPORT A MORE STRINGENT "COMMUNITY OF INTEREST"
14 STANDARD FOR COS. DO OTHER PARTIES SHARE THIS CONCERN?

15 A. Yes. I believe that Sprint witness Mark Harper joins me in this suggestion. He seems
16 to voice some of the same concerns about the present criteria--they are rather lax-- to
17 expand COS service, and proposes the solution of a more stringent "community of
18 interest" standard. He states:

19 *"Each LEC would compute the EAS additive necessary to support the cost of EAS*
20 *between the petitioning and target exchange. Unlike the COS rate today, the EAS*
21 *additive will vary by exchange. The customer in each exchange would then vote*

on the retention of COS as mandatory EAS. If a majority of customers support the movement to mandatory EAS then the service would be implemented as traditional mandatory EAS. If the majority of customers do not support the retention of COS as mandatory EAS in that exchange, then COS would be eliminated altogether."

(Harper Direct/Page 6 - line 21)

VIII. LATAWIDE COS IS ANTI-COMPETITIVE

Q. WHAT WILL BE THE EFFECT OF FURTHER EXPANSION OF COS TO A LATAWIDE SERVICE?

A. Expansion of COS to a LATAwide service (or any expansion) is anti-competitive. For all the aforementioned reasons, CompTel members cannot replicate the offering without some sort of extensive regulatory change. Further expansion is unfair and puts CompTel members at a competitive disadvantage.

Q. HAS THE COMMISSION ENDORSED COMPETITION IN THE INTRALATA MARKET?

A. Yes. In Case No. TO-84-223, the Commission ruled that intraLATA long distance competition was in the public interest. (Report and Order—page 11). The Commission was quite convincing about the merits of a competitive environment when it ruled:

"Based upon the evidence presented in this case the Commission finds that authorizing intraLATA toll competition will result in new and improved services,

1 service, as an alternative to the existing subsidized version, has a reasonable expectation
2 of paying more in access costs than what they receive in revenue and are likely to lose
3 money.

4
5 A possible solution (from a competitive perspective) is to consider COS to be a local
6 service and, thereby, not subject COS-like service to access charges. Such a
7 classification would allow CompTel members to resell the local service on an aggregated
8 basis.

9
10 A second possible solution is to dramatically reduce access charges to the point where
11 a "cheap" flat-rate COS-like becomes economically viable.

12
13 Either of these solutions could make COS-like service somewhat viable in a competitive
14 environment.

15 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

16 A. Yes, it does.