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Company of MO
d/b/a Sprint
Case No.: TW-97-333

UNITED TELEPHONE COMPANY OF MISSOURI d/b/a SPRINT
CASE NO. TW-97-333

DIRECT TESTIMONY
OF
MARK HARPER

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April 11, 1997

**DIRECT TESTIMONY
OF
MARK D. HARPER**

Q. WILL YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Mark D. Harper. My business address is 5454 W. 110th Street,
Overland Park, Kansas 66211.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by United Telephone Company of Missouri, d/b/a Sprint
("Sprint"). My position is Director of Revenue for Missouri and Kansas. I am
responsible for the costing, pricing, tariffs and regulatory matters for the states of
Missouri and Kansas.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

A. Yes, I have testified on behalf of the company in Missouri and Kansas. In
Missouri, I testified on behalf of the company in Case Nos. TR-93-181, TO-95-
289, et al., TC-96-112, TT-96-398 and TO-97-253. Also, I was responsible for
the implementation of the expanded calling services ordered in Case No. TO-
92-306

**Q. PLEASE RESPOND TO THE COMMISSION QUESTIONS AS IDENTIFIED IN
THE ORDER ESTABLISHING DOCKET.**

**1. IS THE APPROPRIATE PRICING MECHANISM FOR ONE-WAY COS WITH
RECIPROCAL SERVICE THE SAME AS SET OUT BY STAFF IN CASE NO.
TT-96-398? IF NOT, SO INDICATE AND SUBSTANTIATE AN ALTERNATIVE
PROPOSAL.**

No, the price for Community Optional Service (COS) in whatever form is adopted
as a result of this docket should be based on the actual cost of providing the

1 service. In a competitive environment, rates for all services should be market-
2 based and cover the actual costs of offering the service. The price for the
3 current COS service was not determined based on cost but instead on a value or
4 willingness to pay estimate made by the Commission in Case No. TO-92-306. At
5 that time, the telecommunications industry was much simpler. There was only
6 one provider of basic local service and one provider of 1+ intraLATA services.

7
8 Since Staff did not propose a specific rate for one-way reciprocal COS service in
9 Case No. TT-96-398, I will assume that the question assumes a 50% reduction
10 of the COS price and that customers in either the petitioning exchange or the
11 target exchange that purchase the revised service would pay 50% of the current
12 price. This approach, or any approach that determines the price for COS based
13 on a division of the existing COS price, is inappropriate. If COS is continued,
14 the revised COS price must be determined based on the cost of offering the
15 revised COS service. The problem of maintaining prices at a level below cost
16 and the subsidies that are created by this policy should not be exacerbated in
17 today's competitive environment by adding additional services priced in this
18 manner when it can be avoided.

19
20 The designation of the revised COS service as toll or local is a key determinant
21 of the appropriate price for the service. If COS is designated as toll as proposed
22 by the Commission, then access charges pursuant to intrastate access tariffs

1 would apply to the traffic. Therefore, the price necessary to cover the cost of
2 access charges may be higher than the existing COS rate. If this is not
3 acceptable, mandating certain toll providers to offer a service that is not above
4 the cost of providing the service will place them at a disadvantage. While this
5 particular problem might be reduced by mandating that all toll providers offer
6 COS so that no one provider must offer a below cost service, this solution comes
7 with potentially insurmountable legal and operational problems as documented
8 in the testimony in Case Nos. TT-96-398 and TO-97-253.

9
10 On the other hand, the revised COS service could be deemed local by the
11 Commission. Services that are interexchange but designated as local, such as
12 EAS and Metropolitan Area Calling (MCA), have traditionally been treated as
13 bill and keep between affected companies or compensation has been set at
14 incremental costs. These services may be subject to TELRIC pricing in the
15 future under the Telecommunications Act of 1996. As a local service, the cost of
16 providing the revised COS based on terminating and originating minutes of use
17 charges, which may be lower than access charges, could result in a lower
18 revised COS price.

19
20 **2. SHOULD ALL COMPETITIVE LECS BE REQUIRED TO OFFER THIS**
21 **SERVICE?**
22

23 No, if COS is a valuable service to end users and a significant number of
24 customers demand COS or a similar service, a competitor will respond with an

1 offering or be at a competitive disadvantage for that group of customers. As of
2 March 1997, 1675 Sprint customers subscribe to COS. That represents less
3 than 1% of Sprint's current customers. To mandate that new entrants to the
4 marketplace must provide a service that would create unique billing processes
5 for such a limited set of customers could be viewed as a barrier to entry.

6
7 The Commission's question is further complicated by the possibility that not all
8 competitive LECs may choose to be toll providers. The designation of the
9 revised COS service as toll while at the same mandating all LECs to provide the
10 service appears to be inconsistent, i.e., it mandates that all LECs also be toll
11 providers.

12 **3. WHAT, IF ANY, CHANGE MUST BE MADE IN THE PRIMARY TOLL**
13 **CARRIER (PTC) PLAN TO ACCOMMODATE OR ACCOMPLISH THE**
14 **PROPOSED COS CHANGES HEREIN?**

15
16 As pointed out by many parties in the testimony in Case Nos. TT-96-398 and
17 TO-97-253, the PTC plan is inconsistent with the introduction of intraLATA toll
18 dialing parity . The terms of the PTC plan dictate that all 1+ dialed intraLATA
19 traffic be delivered to the PTC for that given exchange. Toll dialing parity will
20 violate this basic tenet. However, the Commission's specific straw COS
21 proposal, as Sprint understands it, does not impact the PTC plan. Sprint is
22 eager to read the testimony of other participants on this subject and will respond
23 more fully in rebuttal testimony, if necessary.

1 **4. SHALL THE COMMISSION STAY ALL PENDING AND FUTURE COS**
2 **APPLICATIONS?**

3
4 Yes, the Commission should stay all pending and future COS petitions. It
5 appears from the Commission straw proposals that the characteristics of COS as
6 provisioned today will likely be significantly modified. Customers should fully
7 understand the characteristics of any revised COS before any further action is
8 taken on pending COS applications.

9 **5. WHAT IS THE PARTICIPANTS' PROPOSAL FOR EDUCATING THE**
10 **PUBLIC?**

11
12 The extent of public education efforts will depend on the extent of the revision to
13 the existing COS. When COS was introduced in 1993, LECs utilized separate
14 letters to notify customers of the service characteristics and availability. The
15 letters were reviewed by the Commission staff. This process can be utilized
16 again when the significant revisions to COS are undertaken.

17 **6. IS LATAWIDE OR STATEWIDE FLAT-RATE COS A VIABLE SUBSTITUTE**
18 **FOR THE CURRENT COS ARRANGEMENT?**

19
20 Currently COS is available in 12 of Sprint's 79 Missouri exchanges. In those
21 exchanges, 1675 or less than 1% of Sprint's customers overall subscribe to the
22 service. Approximately 19% of customers in eligible exchanges subscribe to the
23 service. This level of subscribership simply does not justify creation of a LATA-
24 wide or statewide service. Competitive carriers should be free to develop plans
25 that meet customer expanded calling needs.

1 **Q. DOES SPRINT SUPPORT EITHER OF THE STRAW PROPOSALS?**

2 A. The current COS attempts to combine the two-way toll free nature of traditional
3 Extended Area Service (EAS) with toll service by providing the service as an
4 option in exchanges that meet certain calling frequency criteria. The
5 Commission's straw proposals try to maintain these same characteristics on a
6 permanent basis. First, the threshold level question associated with COS is
7 whether there needs to be a permanent Commission mandated COS service or
8 whether competition and the need to satisfy customer demand inherent in a
9 competitive environment will provide acceptable substitutes for current COS
10 customer base. Sprint believes that maintaining COS permanently as an
11 optional toll service is unnecessary. To resolve the complications associated
12 with the two-way nature of COS in an intraLATA toll dialing parity environment,
13 the Commission needs to move the service to either a traditional mandatory EAS
14 or an originating optional toll calling plan but not attempt to retain the
15 characteristics of both.

16 **Q. DOES SPRINT HAVE AN ALTERNATIVE RECOMMENDATION TO THE**
17 **COMMISSION STRAW PROPOSAL?**
18

19 A. Revising COS to mandatory EAS would remove it from the traffic subject to
20 intraLATA toll dialing parity and allow the service to be available regardless of
21 the interexchange carrier selected by the customer. Each LEC would compute
22 the EAS additive necessary to support the cost of EAS between the petitioning
23 and target exchange. Unlike the COS rate today, the EAS additive will vary by

exchange. The customers 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. Additional issues to be address include whether mandatory EAS would have to be offered by new competitive LECs, the appropriate compensation mechanism, and whether the service should be offered as one-way mandatory EAS in petitioning exchanges when the target exchange does not vote favorably.

Moving COS to mandatory EAS recognizes the root of the customer demand for COS, community of interest. Also, the necessary EAS additive should be significantly below the level necessary to support a toll service since the minutes of use charges for termination and origination will be lower. This proposal also maintains the two-way feature of the current COS service.

A second option would be essentially a phase out of COS as customers are given new options for intraLATA 1+ toll providers. COS would be revised to a one-way service from petitioning to target exchanges only. The one-way COS price would reflect the cost of provisioning that service and will likely vary by route or by company. One-way service would be available until intraLATA toll dialing parity is implemented in the petitioning exchange. Customers would be free at that time to choose the intraLATA toll provider that best meets their

. . . .

needs. This proposal avoids the difficulties of determining which group of carriers must be, or can be, mandated to provide a certain service, the potential creation of additional subsidies and their need for recovery, and recognizes that competitive markets are the best way to meet customer needs in the long run.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

