

Exhibit No. :
Witness : Michael Jay Ensrud
Type of Exhibit : Direct Testimony
Company: : CompTel-Mo
Case No. : TW-97-333

COMPTEL-MO

Case No. TW-97-333

DIRECT TESTIMONY

OF

MICHAEL JAY ENSRUD

Mission, Kansas
April, 1997

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MISSOURI
PUBLIC SERVICE COMMISSION

In the Matter of an Investigation into)
the Provision of Community Optional) TW-97-333
Service in Missouri)

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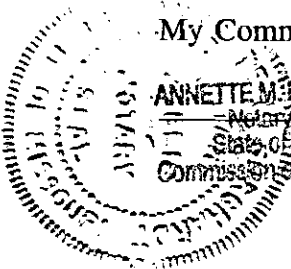
1. My name is Michael Jay Ensrud. I am presently the regulatory analyst with CommuniGroup, Inc., CGI and also the Secretary of CompTel-Mo, intervenor in the referenced matter.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my personal knowledge, information and belief.

Michael Jay Ensrud

Annette M. Borghardt
Notary Public

ANNETTE M. DORCHARDT
 - Motorist Public
 - State of Missouri
 Commission Expires 3/1/23



1 TESTIMONY OF MICHAEL J. ENSRUD

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

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

6 Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING.

7 A. COMPTEL-MO.

8 Q. PLEASE DESCRIBE COMPTEL-MO.

9 A. COMPTEL-MO is a trade association composed of several small Interexchange Carriers
10 (IXCs) who are either headquartered, or who serve large customer bases, in the State of
11 Missouri. My employer, CGI, is a member of COMPTEL-MO. I am the Secretary for
12 the organization. COMPTEL-MO's primary function is to express the interests of the
13 membership in both regulatory and legislative proceedings.

14 Q. WHAT ARE YOUR RESPONSIBILITIES AS SECRETARY OF COMPTEL-MO.

15 A. I review and evaluate regulations and legislation relating to the membership and their
16 operations. I am a registered lobbyist in both Missouri and Kansas and have testified
17 before House and Senate committees in both states regarding proposed legislation. I am
18 a representative of both COMPTEL-MO and CompTel of Kansas. In that capacity, I have
19 filed testimony and submitted comments in a number of regulatory proceedings. I also
20 analyze the tariff filings of other entities to determine their impact upon COMPTEL-MO
21 or its membership.

1 Q. HAVE YOU ATTACHED A SCHEDULE WHICH SUMMARIZED YOUR
2 EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

3 A. Yes, it is attached as Schedule 1.

4 Q HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

5 A Yes. I testified for Teleconnect in the CF1 proceeding (TR-88-88/TR-88-89). I have
6 also testified on behalf of COMPTel-MO in the following contested cases:

7 #1) Competitive Classification Case (TO-88-142)

8 #2) Southwestern Bell's Overearning Case (TO-89-19)

9 #3) Southwestern Bell's Classification Case (TO-89-56)

10 #4) Southwestern Bell's Classification of Service Case (TO-93-116)

11 #5) Southwestern Bell's Optional Payment Plan For Switched Access Service (TT-96-
12 21)

13 #6) Designated Number Optional Calling Plan (TT-96-268)

14 I have also been involved in numerous non-contested proceedings before the
15 Commission.

16 Q. HAVE YOU EVER TESTIFIED IN ANY OF THE PROVISION OF COMMUNITY
17 OPTIONAL SERVICE-LIKE CASES THAT PRECEDED THIS SPECIFIC CASE?

18 A. Yes. I testified in TO-92-306 which is a similar case addressing various aspects of the
19 provision of Community Optional Service.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. My testimony is essentially divided into two parts. In the first part of my testimony I
3 repeat COMPTEL-MO's position regarding the provision of Community Optional Service
4 in the State of Missouri. As I testified in Case No. TO-92- 306, COMPTEL-MO supports
5 the elimination of the present form of this service in the State of Missouri. Under certain
6 criteria which I explain in my subsequent testimony, COMPTEL-MO would support
7 provision of "quasi-local" services. COMPTEL's position has not changed. For
8 COMPTEL-MO the issue is not strictly how the service should be rendered and
9 administered in the state, but whether the service should be allowed at all. The
10 Commission's Order Establishing Docket dated March 7, 1997 (the Order) presumes that
11 COS in some form or the other will continue.

12 For purposes of the second part of my testimony, I have also presumed, in the interest
13 of discussion only, and not as a retreat from COMPTEL-MO's firm objection to this
14 service, that COS will continue in this state and have addressed the issues enumerated
15 in Order.

I. **COMMUNITY OPTIONAL SERVICE**

Q WHAT IS "COMMUNITY OPTIONAL SERVICE"?

A. "Community Optional Service" (COS) is service which for a flat monthly fee a subscriber can call all parties located in a designated exchange at no additional charge beyond the monthly charge. Presently, those who subscribe to COS can also receive calls from all parties in the designated exchange. There is a set criteria for an exchange to qualify to have flat-rated calling to another specified exchange.

The community seeking COS must petition the Commission to obtain the service.

Therefore, the community submitting the petition is sometimes identified as the "petitioning" exchange, community, city or location.

The community seeking COS must identify the community to which they seek to place calls on a flat-rate monthly charges. The community targeted by the petitioning community is identified as the "targeted" exchange, community, city or location.

A. **HARM TO THE CUSTOMER VIA SUBSIDY**

Q. WHO IS HARMED BY THE RETENTION AND EXPANSION OF COS OR COS-LIKE SERVICES?

1 A. There are basically two (2) groups harmed by the expansion of and retention of COS and
2 COS-like services. These are:

3 #1) The costumers who are forced to pay more because these services are
4 subsidized.

5 #2) The carriers who have traffic confiscated in the conversion process and
6 those who are forced to compete against the subsidized services.

7 Q CLARIFY WHAT YOU MEAN WHEN YOU USE THE TERM "COS-LIKE"
8 SERVICES.

9 A. COS is but one service of a group of services where a select few customers in an
10 exchange seek the ability to call other designated locations at something other than
11 "normal" toll rates. The nature of service sought can be either a monthly flat fee, with
12 unlimited calling or a monthly fee paid for a predesignated "blocks of time". Those who
13 utilize these services generally do pay less.

14 What is said in this testimony will generally apply to these other services as well COS.

15 Q. PLEASE LIST THESE OTHER SERVICES WHICH YOU ARE DISCUSSING.

16 A. The services are:

- 17 • OCA (Outstate Calling Area)
18 • MCA (Metropolitan Calling Area)
19 • EAS (Extended Area Service)

1 Q. ARE THERE DIFFERENCES BETWEEN THESE SERVICES AND COS?

2 A. Yes. There are a number of technical differences. COS requires a "one" to be dialed
3 as a prelude to a ten digit number. Other forms of quasi-local service only require the
4 dialing of seven (7) digits. It is COMPTel-MO's understanding that some EAS routes
5 have separate and distinct facilities to carry traffic while other quasi-local services utilize
6 toll facilities to provide the service in question. What is common about these services
7 is that they take traffic that was once considered as traditional toll (and priced as such)
8 and they reclassify such toll traffic into something else - something that is neither "toll",
9 nor "local" in the traditional sense. For example, COS, for all the world, functions like
10 a toll service, but is differently priced. In the past, COMPTel-MO has described these
11 various services as "quasi-local".

12 Q. DOES COMPTel-MO OBJECT TO ALL FORMS OF QUASI-LOCAL SERVICE?

13 A. No.

14 Q. WHAT FORMS OF QUASI-LOCAL CONVERSION WOULD YOU CONSIDER TO
15 BE APPROPRIATE?

16 A. COMPTel-MO would not object to the elimination of a toll route if it met two criteria.
17 First, over half of the subscribers in the exchange should economically benefit by the
18 conversion. If the calling to a designated exchange were such that over half the
19 subscribers generated monthly tolls greater than the cost of the proposed monthly COS

1 flat-rated service, then a true "community of interest" would be served. Over half of the
2 subscribers of the petitioning community would, indeed, benefit under this criteria.
3 Compare COMPTel-MO's proposed criteria to the existing criteria - where a select few
4 can benefit at the expense of others.

5 Second, the monthly flat rate for the service must be sufficient to cover the underlying
6 cost of that service. The monthly charge, however, need not achieve revenue neutrality.
7 No other parties should be required to subsidize the service of others unless there are
8 compelling reasons to do so. Another way of viewing the situation is that if toll rates
9 are considered sufficient for the general populous making dispersed interexchange calls,
10 there should be no "special circumstance" that justifies calling between the petitioning
11 exchange and the targeted exchange receiving subsidy.

12 Q. WHAT IS COMPTel-MO'S POSITION ABOUT THE VARIOUS QUASI-LOCAL
13 SERVICES IN GENERAL AND COS SPECIFICALLY?

14 A. They clearly fail to meet our proposed criteria. In many cases, it can be demonstrated
15 that these various services do not cover the cost of underlying access.

16 Much is made of the fact that these services are "optional". What has been disregarded
17 is the fact that these services are subsidized. COMPTel-MO has long asserted that it is
18 unfair to have an optional service where every time a party exercises that option, the

1 subscriber generates a "revenue shortfall" that must be made up from another source.

2 The pricing schemes related to these quasi-local services result in a situation in which
3 customers who generate little or no traffic between the petitioning exchange and the
4 targeted exchange subsidize customers who generate large volumes of calling between
5 the designated exchanges. In some cases, those who generate the subsidy reside in one
6 of the affected exchanges, but have found no economic viability in exercising the option
7 available to them. In many cases, those who pay the subsidy reside in neither of the
8 affected locations.

9
10 Only a select few benefit from these various services. Large users of toll do pay less by
11 use of the quasi-local services. Again, COMPTel-MO opposes situations in which
12 customers other than those who are affected by the conversion are being required to pay
13 for that conversion. This is what has happened in the past, when surcharges have been
14 implemented to make up the revenue short fall that results from the establishment of COS
15 routes. While the customers who utilized COS did pay part of the total cost of the
16 service, the rates charged for COS were insufficient to recapture the total revenue
17 requirement caused by the implementation of COS. Customers who do **NOT** benefit
18 from such a conversion should not be asked to pay for the cost of conversion.

19 Those who benefit from the conversion of toll to quasi-local should pay all costs
20 associated with the conversion since they are the parties who benefit. There is no

1 justification to require those who receive absolutely no benefit from the conversion to
2 help pay for such a conversion. This assumes the Commission wants to retain its
3 position that each individual customer has the option of converting toll traffic to quasi-
4 local traffic.

5 Q HAS COMPTel-MO'S PROPOSAL REGARDING PROVISION OF A "QUASI-LOCAL
6 SERVICE" BEEN ADOPTED IN OTHER JURISDICTIONS?

7 Yes. The Iowa Public Utilities Board (Iowa's equivalent to the Commission) requires
8 whole exchanges to either convert or not convert. The concept is the whole exchange
9 benefits from the decision. If the Missouri Commission is willing to consider the base
10 unit of conversion to be the exchange, as opposed to the individual customer, a plan
11 could be developed that is more equitable than the one being proposed. It would function
12 as follows:

13 #1) A study would be performed in which the total cost (cost of actual conversion
14 plus the loss of toll revenue) is calculated.

15 #2) The total cost for the exchange is divided by the number of customers in the
16 exchange to calculate the per customer charge to reconfigure toll traffic to quasi-
17 local traffic. This charge is unique for the exchange effected.

18 #3) If 50% or more of the customer base for the effected exchange would experience
19 lower rates by conversion from toll charges to quasi-local, then conversion should
20 be allowed.

1 #4) If less than 50% of the customers benefit from the conversion, then there would
2 be no incentive to convert.

3 #5) If both exchanges receiving quasi-local service perceive that they benefit, then
4 both can be involved in the process. In other words, if both affected exchanges
5 do benefit, then the total cost can be recaptured by surcharges to both exchanges.
6 On the other hand, if only one exchange meets the criteria, then that exchange
7 should have the option of paying for one way or two way quasi-local service.
8

9 Q. WHY IS EXCHANGE WIDE CONVERSION SUPERIOR TO INDIVIDUAL
10 CUSTOMERS HAVING THE CHOICE?

11 A The whole exchange conversion plan is far more equitable than the existing COS in that,
12 at least, the parties who are paying for the service are the ones to benefit from it. There
13 is an opportunity for those who pay for the service to utilize the service in question. It
14 is far more democratic to require that the majority of the customers in the exchange are
15 benefitted as a prerequisite to the establishment of service. Such a requirement makes
16 the process of converting from toll service to quasi-local analogous to voting. If the
17 economists are correct, customers generally make the decision to do what is in their
18 economic best interest. COMPTel-MO's criteria is totally consistent with the concept that
19 the majority of customers in a specific exchange will make the proper economic choice
20 that serves their interests.

1 Q. COMPARE COMPTEL-MO'S PROPOSED EXCHANGE WIDE CONVERSION TO
2 EXISTING COS.

3 A. Based on past experience in other quasi-local conversions where the result was
4 insufficient revenue, the source of additional revenue is clear. Soutwestern Bell has an
5 elaborate example of a "loss recover mechanism" in its tariff (Mo.PSC-No.26 , Long
6 Distance Message Telecommunications Service, Sheet 44, 1.11 F.). Customers who
7 receive absolutely no benefit will be required **to pay more** to make up revenue short
8 falls brought about by the conversion. Expansions of this nature have resulted in both
9 United and GTE establishing state-wide, monthly surcharges to pay for the revenue short
10 falls. There are customers who receive **NO** increase in calling scopes but who have their
11 rates increased, either in the form of a surcharge or disguised as higher local rates.

12 In contrast, existing COS methodology benefits only those who subscribe to the quasi-
13 local calling plans. If you choose not to subscribe, however, no expansion of calling
14 scope takes place. The result is that some customers are double charged. The customer
15 who remains on toll service pays for his/her own interexchange service when they pay
16 toll rates, plus they are required to contribute to making up the deficiency caused by the
17 failure of quasi-local service to pay its own way. In short, the remaining customer base
18 contributes to costs which should properly be assigned to only users of quasi-local
19 service. There is no other way to look at the surcharge but to view it as a potential
20 contribution extracted from one customer to pay for the service of a different customer.

1 Under COMPTel-MO's proposal, the exchange would pay the total cost that
2 results from the establishment of quasi-local routes. While it is true that some
3 customers may pay more than they would otherwise pay if conversion never took
4 place; COMPTel-MO's proposal can offer two reasonable explanations as to why
5 the effected customer's bill would increase.

6
7 First, the exchange customer, at least, has an opportunity to use the service for which
8 he/she has paid. No customer will pay both their own toll rates and be subject to
9 surcharges required to subsidize others. The whole exchange is offered the misnomer
10 of "free calling". Contrast COMPTel-MO's proposal with prior proposals by the
11 Commission. In many instances, the customer was required to pay towards revenue
12 short fall that resulted by the conversion of routes that did not in any way effect the
13 customer's calling scope. This cannot happen under COMPTel-MO's proposal.

14 Second, COMPTel-MO's proposal contains some democratic principles. Each customer
15 would have some input into the decision process as to whether to proceed with the
16 conversion of the exchange. Each customer's usage would be considered in the
17 calculation to determine whether to convert. In a very real way, each customer who is
18 asked to pay for the revenue short fall, is consulted. COMPTel-MO's proposal results
19 in those having a vested interest in the outcome also having a voice in the decision
20 process.

1 Conversely, under existing COS, the majority of customers must bear the consequences
2 of the actions of a few. Customers located in other exchanges, not effected by the actual
3 conversion, are involved only one way. They are asked to pay a portion of the revenue
4 short fall that results from the action of others. It is unfair to require those who choose
5 to utilize toll service, as opposed to converting, to pay their own way plus contribute to
6 the service of those who choose quasi-local service.

7 Q. WHAT IS THE GREATEST ADVANTAGE OF COMPTel-MO'S PROPOSAL OVER
8 EXISTING COS?

9 A With COMPTel-MO's proposal, there is a proper matching of those who will have input
10 into the decision as to whether to establish a quasi-local route with those who whioll be
11 billed for the decision (the service). COMPTel-MO's method of exchange-wide
12 conversion considers the revenue impact on all customers in the exchange and does what
13 is best for the majority in any particular exchange.

14 Contrast COMPTel-MO's proposal to the status quo. Each customer has the individual
15 choice as to whether to establish the service, but that decision can impact the bills of
16 other customers who have absolutely no voice as to whether they want to pay for the
17 service provided to others.

1 If other customers can be impacted by any particular customer choosing to establish the
2 service, then those other customers whose bills will be effected by the decision, should
3 have a say in the decision.

4 **B. HARM DONE TO CARRIERS AND COMPETITION**

5 Q. IS EXISTING COS METHODOLOGY HARMFUL TO INTEREXCHANGE
6 CARRIERS AND COMPETITION?

7 A. Yes. The existing methodology does not address the fact that the traffic being converted
8 to COS or other quasi-local services either is, today, or once was toll traffic. While
9 carriers labor under severe dialing restrictions¹, COMPTel-MO members do serve a small
10 portion of the intraLATA market.² COS has diverted or will divert from carriers
11 traditional toll traffic between affected exchanges to the Primary Toll Carriers (PTC).

12 In the interest of competition, COMPTel-MO members should be allowed to keep the
13 traffic which they won in open competition with, primarily, the same LECs who are the
14 PTCs in Missouri. As already stated, COMPTel-MO members had to overcome the
15 dialing disparity of "one-plus" presubscription not being available to us. Many

¹Soon to be alleviated by the FCC requirement that LECs must offer "one-plus" presubscription.

²In Case No. TO-93-119, in his dissenting opinion, Commissioner Duncan E. Kincheloe stated that "*interexchange carriers services constitute only 7.28% of the market [meaning intraLATA toll market] expressed in minutes ...*."

1 COMPTEL-MO members overcame these hurdles by offering dialers to our customers in
2 order that we could capture the traffic in question. We expended resources in order to
3 be in a position to capture the traffic in question. We bore all the risks associated with
4 open competition. The process of converting traditional toll service to COS or other
5 quasi-toll services deprives the COMPTEL-MO membership of a return on the competitive
6 investment made to win each customer.

7 Carriers have to pay access on each and every minute of traffic between the two
8 exchanges when offering an alternative to COS. If the customers can avail
9 themselves of a service that is flat-rated, or at a block of time that is priced below
10 access, there is no way a carrier can compete for such traffic. Such a dichotomy
11 in rate structures relegates carriers to second class status as compared to the
12 subscriber of COS. Such a policy makes fair intraLATA competition impossible.

13 Q. WHAT ACTION, IF ANY, CAN THE COMMISSION TAKE TO ALLEVIATE THE
14 DISCRIMINATORY ASPECT OF ACCESS COSTING MORE THAN AN END TO
15 END INTEREXCHANGE SERVICE?

16 A. There are two actions the Commission could take to resolve this problem. First, the
17 Commission should require the pricing of all services to reflect underlying costs.
18 Second, the Commission should allow carriers to be able to utilize COS and other

1 alternatives to traditional toll as component of the carrier's network. In other words, the
2 Commission should allow the resale of COS.

3 Q. HOW SHOULD THE COMMISSION ADDRESS THE PROPER PRICING ISSUE?

4 A. The Commission should impose the same imputation requirements on COS that the
5 Commission imposes upon other toll services. Access cost should cost a carrier less than
6 any end-to-end switched service, since access is but a component of any switched
7 service.

8 Q. PLEASE EXPLAIN WHAT YOU MEAN BY ACCESS BEING A COMPONENT OF
9 ANY END TO END SWITCHED SERVICE?

10 A. Any switched interexchange service (whether provided by a LEC or a carrier) utilizes
11 the same components of access. There is additional activity (therefore costs) beyond
12 access associated with an interexchange call. The rate structure imposed upon carriers
13 requires them to pay for this service on a per minute basis. All interexchange calls
14 utilize the local loop (carriers pay the CCL charges to utilize that facility) to originate
15 and terminate a call. All interexchange calls utilize the LECs' switching facilities
16 (carriers pay local switching to utilize that facility) to originate and terminate a call. All
17 interexchange calls utilize trunking facilities (carriers pay, at least, local transport and
18 may have to utilize additional facilities) between the switches in each exchange to
19 complete the call. The access components (local loop, local switching & transport) are

1 part of every switched interexchange call. In addition, there are functions beyond access
2 that are associated with an interexchange call. Activity such as advertising and billing are
3 examples of this additional activity. While there would appear carriers are being
4 similarly charged by the respective LEC, it is clear these LECs are not imposing those
5 charges on themselves when they offer interexchange service. Since the same functions
6 are taking place, in some cases using the exact same facilities, there is no cost based
7 justification to charge carriers more than what the LECs charge the subscriber when the
8 subscriber chooses the LEC's service over the competing service offered by the carrier.

9 The rate structure for COS ignores the fact that access is a subset of switched
10 interexchange service. For example, Southwestern Bell's Two-Way Optional
11 Rural/Residential COS rate is \$16.00 per month for unlimited usage.

12
13 Contrast this \$16.00 flat-monthly rate to the rates carriers will pay to the LECs to utilize
14 Southwestern Bell's access facilities in order to provide to a subscriber an equivalent
15 alternative to Southwestern Bell's Noncontiguous Exchange COS. We must pay on a per
16 minute rate in order to only offer a component of the total equivalent service. The per-
17 minute rate is as follows:

<u>Mileage</u>	<u>Composite Rate (Originating)</u>	<u>Composite Rate (Terminating)</u>	<u>Composite Rate (both ends)</u>
0-1	.023480	.031613	.055093
1-25	.026180	.034313	.060493
25-50	.034680	.042813	.077493
50+	.045880	.054013	.099893

The "both ends" rates represent the per-minute rate Bell will charge a carrier to both originate and terminate a minute of the carrier's toll service over Southwestern Bell's network.

By dividing what the subscriber is charged by the per-minute access fees the carrier is charged, one can determine when a carrier will pay more to Southwestern Bell to gain wholesale (monopoly) access service than what Southwestern Bell charges a subscriber for a "competitive" retail service.

$\$16.00 / \$.055093 = 290.42 \text{ minutes or } 4.84 \text{ hours of usage.}$

$\$16.00 / \$.099893 = 160.17 \text{ minutes or } 2.67 \text{ hours of usage.}$

These calculations are sometimes referred to as "breakeven calculations."

We have mathematically demonstrated that for one COS option, it is a certainty that if the customer places as little as 2.67 hours of calling (slightly less than the average internet session), but no more than 4.84 hours during a month (depending on the distribution of access associated with the call), it is impossible for a carrier using Southwestern Bell's access service to match Bell's offer to the customer. If a carrier

1 attempted to duplicate Bell's offer to the customer, the carrier would pay Bell more in
2 access charges when offering the service than what the carrier would receive in revenue
3 assuming the carrier matched Bell's offer. Any possibility of carriers entering into COS-
4 like arrangements is an economic impossibility, given the existing dichotomy between
5 possible wholesale charges associated with access and the retail rates against which a
6 carrier would be competing.

7 This comparison of Southwestern Bell's access demonstrates the inequity between the two
8 rate structures. Since access is a monopoly service that must be utilized by carriers, if
9 the carrier is to provide service, such a pricing scheme is discriminatory and anti-
10 competitive. If the comparison includes other LEC access rates, the dichotomy of access
11 rates as compared to the block of time rates gets worse. There is even a more
12 pronounced differential between the carriers' access rates and the quasi-local rates end
13 users will pay.

14
15 Q. IS THIS DIVERSITY BETWEEN RATE STRUCTURES CONSISTENT WITH SOUND
16 PRICING PRINCIPLES?

17 A. NO. It is improper to have a service priced to meet cost yet have a component of the
18 whole service priced more than the total sum of all parts. This is analogous to selling
19 engines at a higher wholesale price to competitors who produce vehicles than the retail
20 price charged for the whole vehicles. To make the analogy complete, the wholesaler

1 must have a monopoly on engines. That is the price structure COMPTel-MO will be
2 competing against. From a costing standpoint, the fact that access is significantly higher
3 than quasi-local service is a major concern.

4 COMPTel-MO members can only purchase access on a per minute basis. COS
5 establishes interexchange service on a flat rated basis. It is a mismatch of costing
6 principles to sell one interexchange service on a flat rated basis to end users but sell
7 carriers a roughly equivalent but lesser service on a usage sensitive (per minute) basis.
8 Such action is also discriminatory and anti-competitive. Proper costing of both services
9 would alleviate some of COMPTel-MO's concerns. Consistency would also help the
10 situation. If subscribers can avail themselves of flat rated service, carriers should be able
11 to do likewise, at like prices.

12 Q. WHAT OTHER ACTION SHOULD THE COMMISSION TAKE TO ELIMINATE THE
13 DISCRIMINATORY EFFECT OF COS?

14 A.. The second action the Commission should take to to allow resale of this service by
15 COMPTel-MO members. If any quasi-local service (whether COS, MCA EAS or OCA)
16 were priced to pay for itself, then neither the LECs nor the Commission should have a
17 problem with carriers utilizing the service in question, as an alternative to access and /or
18 in conjunction with other services. Some of COMPTel-MO's concerns about the
19 anti-competitive aspect of this proposal would be alleviated if COMPTel-MO members

1 could incorporate the LECs' existing quasi-local services as a means to originate and
2 terminate interexchange calls under the same rates and conditions that are offered by the
3 LECs. If the Commission ruled carriers could acquire and utilize quasi-local service to
4 originate and terminate our traffic, some of the current discriminatory aspects of the
5 existing structure would be eliminated.

6 Q. WILL THE USE OF COMPTTEL-MO'S EXCHANGE-WIDE CONVERSION METHOD
7 ELIMINATE THE NEED TO ADDRESS THESE COMPETITIVE CONCERNS?

8 A. No, it will not. These are two distinct and separate problems. The use of the exchange-
9 wide conversion method addresses inequitable treatment among and between end-users
10 who subscribe to quasi-local service and those who do not. The use of proper costing
11 and/or allowing carriers to incorporate quasi-local services (in either form) into the
12 carrier's network, addresses COMPTTEL-MO's concerns about the conversions being
13 anti-competitive and discriminatory.

14 II. **RESPONSES TO COMMISSION QUESTIONS**

15 Q. HAS COMPTTEL-MO PREPARED A RESPONSE TO THE ENUMERATED
16 QUESTIONS THE COMMISSION SET FORTH IN THE ORDER.

17 A. Yes, COMPTTEL-MO has a response to those questions and much of COMPTTEL-MO's
18 response could be anticipated from what I have already testified to. However, I
19 recapitulate much in the following discussion.

1 **Question #1** *Is the appropriate pricing mechanism for one-way COS with reciprocal*
2 *service the same as set out by the Staff in Case No. TT-96-398? If not, so indicate and*
3 *substantiate an alternative proposal.*

4 **Response:**

5 No. Staff's proposal of cutting rates in half to reflect only one way service is
6 inappropriate. COS is a subsidized service when offered on a two-way basis. There is
7 no indication that the elimination of the "reverse-calling" feature of COS will cause the
8 service to be priced above cost. As demonstrated on the chart set out earlier in my
9 testimony (the "break-even" calculations) it is quite easy for a customer to reach a level
10 of usage where he pays less on a per minute basis than a carrier would for the access
11 component. Cutting the COS rate in half cuts the break-even point in half and greatly
12 exacerbates the anti-competitive effect of this service. All indications are that it will
13 remain subsidized. Therefore, it is totally inappropriate to cut the existing price of COS
14 in half to recognize the fact that "reverse-calling" is no longer available.

15 COMPTel-MO's alternative proposal is set out in the first part of my testimony and
16 includes these features: exchange conversion, cost based rates and resale at a wholesale
17 rate. The service should be priced to reflect underlying costs in order to force COS
18 routes to become subject to competition. Proper pricing would eliminate cross-
19 subsidization. Eliminating cross-subsidization would remove the unfair burden placed
20 on others (non-users of COS) that exists today.

Question #2 - *Shall all competitive LEC s be required to offer this service?*

Response:

No. Issues as to why such is the case are replete throughout this testimony. There is a serious question whether the Commission can order each competitive LEC to provide this service. Requiring provision of a particular telecommunications service runs counter to the competitive market envisioned by federal policy. There is the issue that since COMTEL-MO members operate in a totally competitive environment, we lack a source of subsidy that is granted to others. Allowing us to raise other rates is no solution for COMTEL-MO members. There is a long list of physical and administrative reasons why COMTEL-MO cannot offer duplicative COS.

Question #3 - *What, if any, change must be made in the primary toll carrier (PTC) plan to accommodate or accomplish the proposed COS changes herein?*

Response:

There are a whole host of changes that are needed: The PTC should not be required to carry this traffic as anything other than traditional toll. The PTC should be barred from collecting a cross-subsidy that is, today, an essential component of this service. With the advent of "one-plus" presubscription the market should dictate the services provided between the exchanges currently covered by COS. Competition should act as a constraint as to how high the "special" prices can go. Traditional toll will act as a Commission-

1 imposed rate ceiling in such an environment. On the other end of the spectrum,
2 underlying costs will act as a rate floor for traffic covered by COS.

3 **Question #4** - *Shall the Commission stay all pending and future COS applications?*

4 **Response:**

5 Yes. For all the aforementioned reasons as stated in this testimony, staying all pending
6 and future COS applications is a justified and prudent course of action.

7 **Question #5**- *What is the participants' proposal for educating the public?*

8 **Response:**

9 Those affected by any change concerning the status of COS should be notified of such
10 changes by a separate mailing.

11 **Question #6** - Please *"explore and discuss the potential for LATAwide or statewide flat-*
12 *rate COS"*

13 **Response:**

14 My testimony has addressed the multitude of failings and deficiencies that are included
15 in the existing COS methodology. The further COS expands, the more material these
16 failings and deficiencies become. Any proposal to expand the COS offering to

1 LATAwide or statewide coverage will intensify these failings and deficiencies to an
2 extreme. If the Commission were to take this step, the issues of both confiscation and
3 compensation would likely need to be addressed within the context applicable law.

4 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

5 A. Yes, it does.

MICHAEL J. ENSRUD, SCHEDULE 1
EDUCATION AND PROFESSIONAL EXPERIENCE

Michael Jay Ensrud
6950 West 56th Street
Mission, Kansas

Education:

Drake University (1973-1975) Bachelor of Science, Business Administration. Major-Accounting.

Grand View Junior College (1971-1973)

NARUC Annual Regulatory Studies Program (1982), Michigan State University

Experience:

11/90 to Present: Regulatory Analyst for CGI. In this capacity, I analyze tariff filings, rulemakings, rate case proceedings and other regulatory matters to determine their impact upon CGI and other IXC's. I am a registered lobbyist in both Kansas and Missouri. In that capacity, I have testified either for or against various pieces of legislation. I have testified in various proceedings before the Missouri Public Service Commission. I have also prepared and submitted applications to establish CGI as a legal entity in eight (8) states.

2/85 to 11/90. Regulatory analyst for Teleconnect/Telecom * USA. In that capacity, I performed somewhat the same duties as I currently do for CGI. I had primary responsibility for keeping track of regulatory and legislative developments in six (6) states. The prime responsibility was to analyze various filings, report the effect of these filings to management and respond accordingly. I testified before the Iowa Public Utilities Board and Missouri Public Service Commission. I filed comments in various regulatory proceedings for all six (6) states for which I had primary responsibility.

5/80 to 2/85. Utility analyst for the Iowa Public Utility Board (equivalent to the Missouri Public Service Commission). In that capacity, I analyzed the filings of various and sundry telecommunication entities regulated by the Board. I make recommendations as to whether to accept proposed filings. In addition, I testified in various rate-case proceedings and rule-makings.

6/75 to 8/78. Accountant with General Telephone Company of the Midwest. In that capacity, I performed various functions in the cost account section, including supervision of the Continuing Property Records (CPR), addition and deletion of plant location records, reconciliation of plant work sheets and various property tax activity. I also audited outside plant crews' work project reports to determine if construction events came in on budget and obtain an explanation as to why there were cost overruns when they did not.