

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN)
INVESTIGATION INTO THE)
PROVISION OF COMMUNITY) CASE NO. TW-97-333
OPTIONAL CALLING SERVICE)
IN MISSOURI.)

PUBLIC SERVICE COMMISSION
MISSOURI

APR 11 1997

FILED

AFFIDAVIT OF MARY L. KAHNERT

STATE OF MISSOURI)
COUNTY OF ST. CHARLES) ss

Mary L. Kahnert of lawful age, being duly sworn, deposes and states:

1. My name is Mary L. Kahnert. I am State Manager--Industry Affairs for GTE Telephone Operations.
2. Attached hereto and made part hereof for all purposes is my direct testimony.
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 knowledge and belief.

Mary L. Kahnert
Mary L. Kahnert

Subscribed and sworn to before me this
10th day of April, 1997.

Staci A. Huth
Notary Public

My Commission Expires: 11-3-97

STACI A. HUTH
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires Nov. 3, 1997

GTE MIDWEST INCORPORATED
DIRECT TESTIMONY OF MARY L. KAHNERT
CASE NO. TW-97-333

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Mary L. Kahnert. My business address is 1000 GTE Drive, Wentzville, Missouri 63385.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by GTE as the State Manager--Industry Affairs.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I received a Bachelor of Arts degree in Mathematics from Emporia Kansas State College in 1976. I received a Masters in Business Administration from St. Louis University in 1989.

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE IN THE TELEPHONE INDUSTRY.

A. I joined Contel of Missouri in 1979 as a management trainee in Branson, Missouri, where I worked in several areas of the local operation.

In 1985 I transferred to Contel Service Corporation in St. Louis. My direct and supervisory responsibilities have included preparation and audit of separations studies, issuance and verification of carrier access billing, intercompany settlements (including Primary Toll Carrier (PTC) settlements), cost pool settlements (including settlements with the National Exchange Carrier Association (NECA) and state pools in Oklahoma, Illinois and Arkansas), preparation and filing of interstate and intrastate access tariffs, participation in various industry workshops on cost, pricing, and settlement issues, and overall management of a general rate case.

I joined GTE in September of 1991, following the merger of Contel

1 Corporation with GTE Corporation. In my present position, I have responsibility
2 for negotiating and managing the intraLATA compensation arrangements in
3 Missouri, Oklahoma and Arkansas.

4 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE REGULATORY**
5 **COMMISSIONS?**

6 **A.** Yes, I have appeared as a witness in Missouri, Arkansas and Illinois.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

8 **A.** I will respond from a policy perspective to the straw Community Optional Service
9 (COS) proposal and the six questions contained in the Order Establishing Docket
10 in this case. GTE witness Dave Evans will respond to the pricing issues raised
11 in the first question.

12 **Q. THE STRAW COS PROPOSAL STATES AS FOLLOWS:**

13 "A. Participants shall assume a change from the current two-way COS to one-
14 way COS with a one-way reciprocal COS or, in the alternative, using an 800
15 number based service as suggested by Southwestern Bell Telephone
16 Company (SWBT) in its testimony filed in Case No. TT-96-398. This
17 proposal would remain a toll service."

18 Does GTE support the straw proposal as stated in paragraph A?

19 **A.** It is clear that two-way COS in its present form cannot continue when intraLATA
20 presubscription is implemented. The billing system method that is used today
21 between two carriers would be unsatisfactory in a presubscribed environment.
22 The labor-intensive process of notifying multiple carriers and the opportunity for
23 billing errors and customer complaints would increase exponentially. The
24 necessary exchange of proprietary customer information to competing carriers
25 would also be unsatisfactory. Rather than eliminate COS entirely, GTE supports
26 the conversion of two-way COS to one-way COS, with the identical one-way COS

1 service available reciprocally in the target exchange. This eliminates the
2 unavoidable problems associated with provisioning a two-way service in a
3 competitive environment, as more fully discussed in testimony filed by GTE and
4 other parties in Case No. TT-96-398.

5 GTE does not support the use of an 800 number based service, for reasons
6 discussed below. However, for the record, GTE believes that the provision of
7 return calling using an 800 number based service is the least problematic of all the
8 technical solutions discussed in Case No. TT-96-398, including the use of a
9 special NPA code, SS7 database capabilities, or restriction of intraLATA
10 presubscription in certain exchanges or on certain routes.

11 There are several disadvantages with the 800 number approach. One is
12 that it adds to the depletion of numbers available for other toll-free inward calling
13 services. The numbering plan area (NPA) code 888 was introduced in May, 1996,
14 which provided about eight million additional toll-free numbers. After just ten
15 months, there are currently about 4.5 million numbers left. Several new codes
16 have been reserved for expansion of toll-free services, and 877 is scheduled to
17 be introduced in April, 1998. With the accelerated demand on numbers for toll-
18 free service, the justification for this specific application seems questionable.

19 Another disadvantage of the 800 number approach is that the non-standard
20 restriction of an 800 or 888 calling scope to only one target exchange will be
21 confusing to customers that have learned to expect toll-free calling to be available
22 to a much larger calling area. Thus, it would add to the need for customer
23 education about changes in COS service. In addition, the need for a second
24 number to provide return toll-free calling may cause confusion until the new
25 number can be learned by calling parties in the target exchange and thus may
26 cause dissatisfaction for some period of time.

1 For these reasons, GTE believes that one-way reciprocal COS is superior
2 to one-way COS with a common line 800 number that can only be called from the
3 COS target exchange. Other competitive solutions, such as package volume
4 discounts and LATAwide flat rate calling plans may also provide suitable calling
5 alternatives.

6 **Q. DOES GTE AGREE THAT COS SHOULD REMAIN A TOLL SERVICE?**

7 **A.** Yes, although the distinction between "toll" and "local" is becoming more difficult
8 to make. We feel strongly that COS is not a basic local or basic interexchange
9 telecommunications service, as defined in Mo. Rev. Stat. 386.020(4) as amended
10 by Senate Bill 507. As a practical matter, we believe the appropriate
11 compensation mechanism on optional interexchange calling is switched access,
12 regardless of the designation.

13 **Q. THE STRAW PROPOSAL ALSO STATES AS FOLLOWS:**

14 "B. The participants shall assume retention of the current compensation
15 mechanism unless the participants choose to present testimony to
16 substantiate the necessity of an alternative proposal."

17 Does GTE support this portion of the straw proposal?

18 **A.** GTE agrees that the current compensation mechanism, namely intrastate switched
19 access charges, is the appropriate compensation mechanism. However, this
20 perpetuates the mismatch of a flat rate revenue stream and a usage sensitive
21 compensation obligation, and the higher the access rates, the greater the
22 problem. GTE's support of the current compensation mechanism is conditioned
23 on the expectation that GTE will be allowed to set its COS rates to cover its cost,
24 including the cost to terminate calls in another LEC's exchange, as more fully
25 explained by GTE witness Dave Evans.

26 **Q. QUESTION 2 IN THE ORDER ESTABLISHING DOCKET ASKS, "SHALL ALL**

1 **COMPETITIVE LECS BE REQUIRED TO OFFER THIS SERVICE?" WHAT IS**
2 **GTE'S OPINION?**

3 **A.** In order for the Commission to require competitive local exchange carriers
4 (CLECs) to offer this service, the Commission would need to find that this service
5 was a basic local telecommunications service. COS does not fit the definition of
6 basic local telecommunications service as found in Mo. Rev. Stat. 386.020(4) as
7 amended by Senate Bill 507. To the extent that the CLEC is also an
8 interexchange carrier (IXC) and to the extent that the Commission at some point
9 makes a determination that COS is a basic interexchange telecommunications
10 service as defined in Section 386.020(3) as amended by SB507, then the
11 Commission might be able to require all IXCs to provide COS.

12 GTE believes that regulatory parity should apply in this case, such that the
13 service is either required of all carriers serving the given market or it is not
14 required of any carrier. Toward that end, optional calling plans should be tailored
15 to fit in a competitive marketplace, so that no carrier is required to offer a service
16 that they otherwise have no incentive to provide.

17 **Q. QUESTION 3 ASKS, "WHAT, IF ANY, CHANGE MUST BE MADE IN THE**
18 **PRIMARY TOLL CARRIER (PTC) PLAN TO ACCOMMODATE OR**
19 **ACCOMPLISH THE PROPOSED COS CHANGES HEREIN?" WHAT IS GTE'S**
20 **RESPONSE?**

21 **A.** GTE believes that the PTC plan will inevitably have to change to an originating
22 responsibility plan (ORP) as a result of implementing intraLATA presubscription.
23 The future of the PTC plan is currently being addressed in Case No. TO-97-220.
24 Any change to COS service must be compatible with prospective changes to the
25 PTC plan. Another consideration that may affect the PTC plan and COS
26 compensation are the Federal Communications Commission (FCC) cases on

1 access charge reform and on Universal Service Fund (USF) reform. Orders are
2 due out in both cases by May 8, 1997.

3 The PTC plan is defined in the Conceptual Framework, Missouri Intrastate,
4 IntraLATA Primary Toll Carrier by Toll Center Plan, filed in Case No. TO-84-222,
5 et. al. on January 29, 1987, as modified by subsequent Commission orders in that
6 case dated April 3, 1987, October 23, 1987, and December 11, 1987, and in Case
7 No. TT-94-119. The PTC plan need not change as a result of changing COS from
8 a two-way service to a one-way reciprocal service. If COS remains a toll service,
9 the PTCs will need to make tariff changes to both the service description and the
10 rates. The change from two-way COS to one-way reciprocal COS would not shift
11 the assignment of responsibility for compensation on COS traffic, currently
12 assigned to the PTC, since that responsibility is based on where the call
13 originates. However, it would change the end user revenue of the LEC that is the
14 PTC for the petitioning exchange if rates are changed, either up or down, in the
15 petitioning exchange. It would also change the end user revenue of the LEC that
16 is the PTC for the target exchange, if new customers are able to subscribe from
17 the target exchange.

18 **Q. QUESTION 4 ASKS, "SHALL THE COMMISSION STAY ALL PENDING AND**
19 **FUTURE COS APPLICATIONS?" WHAT IS GTE'S POSITION?**

20 **A.** GTE believes all pending and future COS applications should be stayed until this
21 case is concluded. The present qualification process includes a calling study by
22 the incumbent local exchange carrier (ILEC), at the direction of the Commission,
23 of calls from the petitioning exchange to the target exchange. In the future, if
24 multiple IXCs and CLECs serve a petitioning exchange, a study conducted by the
25 ILEC may not be representative of all calling from the petitioning to the target
26 exchange. If the Commission determines that it is appropriate to continue to add

1 additional COS routes, any future COS routes should be qualified and
2 implemented under the terms and conditions approved in this case.

3 **Q. QUESTION 5 ASKS, "WHAT IS THE PARTICIPANTS' PROPOSAL FOR**
4 **EDUCATING THE PUBLIC?" WHAT IS GTE'S POSITION?**

5 **A.** GTE's average COS subscription rate for all of its COS petitioning exchanges is
6 11.4%. GTE believes it is important that news releases, bill inserts and direct
7 mailings target those customers that will be affected by the proposed changes in
8 COS, without causing undue concern or confusion on the part of the majority of
9 customers that will not be affected.

10 GTE proposes a three-part customer communication plan. The first part
11 would be a news release, to be issued by the Commission, that would be used in
12 each target exchange (plus EAS points, if applicable) to educate the public on the
13 pending changes to COS, including the reasons for the changes, and the fact that
14 all 1+ calls to the petitioning exchange will be charged to the calling party. It
15 should also explain that one-way COS will now be available from the petitioning
16 exchange(s) listed in the press release to the corresponding target exchange(s)
17 (and vice versa if the Commission approves reciprocal COS). This press release
18 should be designed by industry representatives (possibly a technical committee)
19 to inform and educate and should be used for all target exchanges.

20 The second part of GTE's proposal is a bill insert that would be sent to all
21 customers in the target exchange. A suggested format is attached as Exhibit
22 MLK-1, Page 1. The message is similar to the press release but also includes
23 specific COS route information, rates, and company contacts for the modified COS
24 service that will be offered in their exchange. This piece would include a return
25 card for customers that wish to subscribe to COS from the target exchange.

26 The third part of GTE's proposal is a direct mail piece that would be sent to

1 existing COS subscribers in the petitioning exchange. A suggested format is
2 included in Exhibit MLK-1, Page 2. This piece explains the background on this
3 issue, changes to the existing service, important dates, decisions the customer
4 must make, and the time frames for those decisions. This piece also spells out the
5 default action that will be taken if the customer does not respond. GTE believes
6 that it is important to establish a communication and response audit trail that is
7 approved by the Commission and will be followed by all companies.

8 **Q. THE COMMISSION ALSO ASKS FOR INPUT ON THE POTENTIAL FOR**
9 **LATAWIDE OR STATEWIDE FLAT-RATE COS. WHAT IS GTE'S POSITION ON**
10 **THIS 6TH QUESTION?**

11 **A.** These types of plans should be offered at the initiative of a certificated carrier, not
12 mandated by the Commission. Given the state and federal laws that allow for
13 competition between providers of local and interexchange services, the market
14 should be allowed to operate to fill whatever customer demand exists.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 **A.** Yes.
17

Bill Insert for Target Exchange and EAS Points

Toll-Free Calling Changes

Beginning (date), all calls to Community Optional Service (COS) subscribers in (name of petitioning community) will be charged long distance rates. This includes calls that you may have placed in the past as toll-free.

The change, ordered by the Missouri Public Service Commission, is a result of federal legislation passed in 1996 to increase competition in local and long distance phone service markets. It is not technically feasible to continue the existing two-way service when multiple carriers serve your exchange.

If you make frequent calls to (name of petitioning exchange), you may now order one-way COS to that exchange at a monthly rate of (\$\$. \$\$) by returning the enclosed request form. If you have questions concerning this change or the new service offering, please contact (ILEC) at (contact number).

Direct Mail Piece for Petitioning Exchange Subscribers of COS

(Side 1 Headline)

Your Community Optional Service Is Changing
And You Need to Say How You Want It Changed

Because of new federal regulations allowing competition in local and all long distance phone service markets, the Community Optional Service (COS) you have will become one-way, only, on (date). This means that telephone callers in (target exchange(s)) will pay a toll charge to call you, but you will not pay a charge to call them. They also may now subscribe to one-way COS for toll-free calling to you and others in (name of petitioning exchange).

With this change, your monthly rate for one-way COS service to (name of target exchange(s)) will change from (existing monthly rate) to (proposed monthly rate). This monthly rate entitles you to unlimited one-way calling to (name of target exchange(s)).

Please indicate the service you want us to provide after (date) by completing and mailing this postage-paid card to us. If we do not receive the card from you by (date), your Community Optional Service will be converted to one-way COS at the new rate.

- ___ Option 1. Please convert my Community Optional Service as one-way for a monthly rate of (amount).
- ___ Option 2. Please discontinue my Community Optional Service. I understand that after (date) calls to (target exchange(s)) will be billed as long distance calls.

Telephone number _____ Customer Signature _____

Side 2

Return Address

Postage Paid Stamp

Name & Address of Phone Company