

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of an Investigation
into the Provision of Community
Optional Calling Service in Missouri

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CASE NO. TW-97-333

AFFIDAVIT OF RANDY R. KLAUS

STATE OF TEXAS)
COUNTY OF TRAVIS)

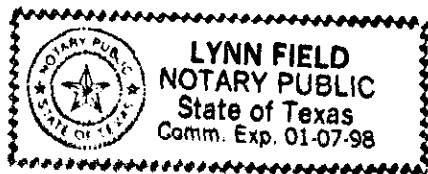
FILED
APR 11 1997
MISSOURI
PUBLIC SERVICE COMMISSION

Randy R. Klaus, being of lawful age and duly sworn, deposes and states:

1. My name is Randy R. Klaus. I am employed by MCI Telecommunications Corporation, as a Regulatory Manager, Southern Region Regulatory and Governmental Affairs, at Austin, Texas.
2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 5, and Appendix 1.
3. I hereby swear and affirm that the answers contained in my testimony attached hereto to the questions propounded therein are true and correct to the best of my knowledge and belief.

Randy R. Klaus
Randy R. Klaus

SUBSCRIBED AND SWORN to before me this 10th day of April, 1997.



L. Field

My Commission expires _____.

Exhibit No.:

Issue:

Witness: Klaus

Type of Exhibit: Direct Testimony

Sponsoring Party: MCI Telecommunications Corp.

Case No. TW-97-333

Investigation into the Provision of
Community Optional Calling Service in Missouri

Case No. TW-97-333

Direct Testimony

of

Randy R. Klaus

April 11, 1997

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

In the Matter of an Investigation
into the Provision of Community
Optional Calling Service in
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Case No. TW-97-333

**DIRECT TESTIMONY OF RANDY R. KLAUS
ON BEHALF OF
MCI TELECOMMUNICATIONS CORPORATION**

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Randy R. Klaus, and my business address is 701 Brazos Street,
3 Suite 600, Austin, Texas, 78701.

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

5 A. I am employed by MCI Telecommunications Corporation as a Regulatory
6 Manager, Law and Public Policy-Southern Region.

7 Q. HAVE YOU PREVIOUSLY TESTIFIED?

8 A. Yes, I have testified before this Commission and other regulatory commissions.
9 Appendix 1 to this testimony contains a listing of the proceedings in which I have
10 participated. Also included as a part of Appendix 1 is a summary of my
11 educational and professional qualifications, and business experience.

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. The purpose of my testimony is to respond to the issues and questions
14 regarding COMMUNITY OPTIONAL SERVICE (COS) raised in the
15 Commission's order of March 7, 1997, in this case.

1 ISSUE/QUESTION NO. 1

2 Q. IS THE APPROPRIATE PRICING MECHANISM FOR ONE-WAY COS WITH
3 RECIPROCAL SERVICE THE SAME AS SET OUT BY THE STAFF IN CASE
4 NO. TT-96-398?

5 A. The price for one-way COS must be set at a level which recovers its cost,
6 including imputation by the incumbent LEC of the inflated price(s) of its intrastate
7 switched access services. MCI does not have the cost information necessary to
8 know whether a rate equal to 50 percent of the existing two-way COS rate would
9 recover such costs or not.

10 Imputation will reduce the potential for "price squeezes". Imputation is intended
11 to prevent the ILECs from subjecting dependent competitors to price squeezes
12 which can happen when a firm with market power sells essential inputs in a
13 wholesale market and also competes with purchasers of such inputs in the retail
14 market. The squeeze occurs when the firm which provides the essential inputs
15 does not include, in its retail prices, the amount it charges competitors for
16 essential inputs as well as other service-specific costs.

17 The price for one-way COS must be set at or above the excessive rates charged
18 for intrastate switched access, plus service specific costs such as marketing,
19 and billing and collection. Unless the retail price of one-way COS covers such
20 costs, even more efficient competitors will find it extremely difficult, if not
21 impossible, to compete against the ILECs because of the artificial and unearned
22 cost disadvantage. On the other hand, imputation would no longer be a
23 necessary regulatory requirement if the price for switched access services was

1 set at economic cost.

2 ISSUE/QUESTION NO. 2

3 Q. SHALL ALL COMPETITIVE LECS BE REQUIRED TO OFFER THIS SERVICE?

4 A. No. The mandatory imposition of COS on CLECs will likely be too costly and too
5 burdensome to administer. Moreover, such a requirement is at odds with
6 introducing competition into the industry.

7

8 MCI is opposed to being "required" to provide joint retail telecommunications
9 services with the ILEC industry for the very reasons Ms. Smith cited in her
10 testimony on behalf of the Commission in TT-96-398: administrative costs and
11 logistics of developing special billing tables, suppressing the billing of toll calls,
12 distributing subscriber information, and intercompany compensation.

13 Competitors should be given the opportunity to provide COS or COS - like
14 services, but they should not be required to do so. Retail telecommunications
15 offerings competitive to COS, like other toll calling arrangements, should be
16 allowed to develop, over time, without regulatory intervention or prescription.
17 Market forces together with appropriate implementation of the changes
18 mandated by the Telecommunications Act of 1996 will provide consumers with
19 more choices, better service and the lowest possible prices. The Commission
20 should take a "laissez-faire" approach to the provisioning of such service
21 offerings by competitors, and a proactive approach to ensuring that conditions
22 exist to allow effective competition to evolve.

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3 ISSUE/QUESTION NO. 3

4 Q. WHAT, IF ANY, CHANGE MUST BE MADE IN THE PRIMARY TOLL CARRIER
5 (PTC) PLAN TO ACCOMMODATE OR ACCOMPLISH THE PROPOSED COS
6 CHANGES HEREIN?

7 A. While the PTC plan must be eliminated to implement intraLATA equal access
8 throughout the state, MCI is not aware of any changes that are necessary
9 specifically for the purpose of modifying COS.

10 ISSUE/QUESTION NO. 4

11 Q. SHALL THE COMMISSION STAY ALL PENDING AND FUTURE COS
12 APPLICATIONS?

13 A. A stay would reduce consumer confusion while the Commission considers
14 modifying COS.

15 ISSUE/QUESTION NO. 5

16 Q. WHAT IS THE PARTICIPANTS' PROPOSAL FOR EDUCATING THE PUBLIC?

17 A. Assuming the Commission implements one-way COS, notice through separate
18 mailers by ILECs, directory information, and Commission press releases should
19 be more than adequate. Since MCI does not offer COS, it has no plans of
20 advising customers of any changes to this ILEC offering.

1 ISSUE NO. 6

2 Q. DISCUSS THE POTENTIAL FOR LATAWIDE OR STATEWIDE FLAT-RATE
3 COS.

4 A. As discussed above, the further development and/or expansion of optional toll
5 calling plans should be left up to the competitive marketplace. With the
6 introduction of 1+ intraLATA equal access and appropriate implementation of the
7 Telecommunications Act of 1996, the invisible hands commonly referred to as
8 "market forces" will see that consumers get what they want when they want it,
9 and how they want it.

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11 A. Yes, it does.

**Summary of Education, Professional Qualifications,
Business Experience, & Witness Appearances of
Randy R. Klaus**

Educational Background

I received a Bachelor of Business Administration degree with a major in Accounting from the University of Texas at Austin in 1977.

Professional Qualifications

I am a Certified Public Accountant licensed by the Texas State Board of Public Accountancy. In addition, I am a member of the American Institute of Certified Public Accountants and the Texas Society of Certified Public Accountants. I attended the Annual Regulatory Studies Program sponsored by the National Association of Regulatory Utility Commissioners and the Graduate School of Business of Michigan State University in 1981. In addition to this particular program, I have attended numerous continuing professional education courses and seminars related to regulatory and/or accounting issues. In 1984 and again in 1992 I was a speaker at the annual utilities conference sponsored by the Texas Society of Certified Public Accountants. I was also a member of the committee which sponsored the aforementioned conference from 1985 to 1987, and again from 1992 to 1996.

Business Experience

After graduation, I was employed by Glastron Boat Company (a boat manufacturer) as an accountant and then as Accounting Supervisor over a period which spanned two and one-half years. My responsibilities with Glastron extended throughout the entire accounting function and culminated in Glastron's financial statements as well as those of other operating subsidiaries of Conroy, Inc. I was then employed as an auditor with the State Auditor's Office for a brief period of time prior to accepting employment with the Public Utility Commission of Texas in 1980.

While in the employ of the Texas Commission, I held various positions, from Regulatory Accountant to Assistant Director of Accounting, wherein I presented accounting (revenue requirement) related testimony in a number of telephone, electric, and water/wastewater proceedings.

In 1985 I accepted the position of Senior Staff Member with MCI Telecommunications Corporation. As a Senior Staff Member, Regulatory Analysis Group, I am responsible for providing analyses, comments, petitions, schedules and/or testimony on regulatory

matters before the Federal Communications Commission and state regulatory commissions. In 1994 I accepted my current position as Regulatory Manager, Southern Region Regulatory and Governmental Affairs.

In addition, I previously served as a member and President of the Board of Directors of North Central Austin Growth Corridor Municipal Utility District No. 1, a political subdivision whose primary responsibility was providing retail water and wastewater service. The other members of the Board of Directors and I had sole responsibility for setting the District's water and wastewater rates, ad valorem tax rate(s), the terms and conditions upon which water and wastewater services were provided, as well as the overall management of the District's operations.

Witness Appearances

Before the Public Utility Commission of Texas:
(Present-1980)

Docket Style of Proceeding

- | | |
|-------|---|
| 16355 | Petition of MCI Telecommunications Corporation and its Affiliate MCIMetro Access Transmission Services, Inc. for Arbitration with GTE Southwest Incorporated, prefiled October 14, 1996. |
| 16285 | Petition of MCI Telecommunications Corporation and its Affiliate MCIMetro Access Transmission Services, Inc. for Arbitration and Request for Mediation Under the Federal Telecommunications Act of 1996, prefiled September 6, 1996. |
| 14892 | Application of Southwestern Bell Telephone Company for Approval of new Business Optional Calling Plan Options Pursuant to PUC Subst. Rule 23.26, prefiled June 21, 1996. |
| 14686 | Petitions of Southwestern Bell Telephone Company, GTE Southwest, Inc., et al. for Extended Area Services in the Dallas and Houston Metro Areas, prefiled February 6, 1996. |
| 14658 | Applications of Southwestern Bell Telephone Company, GTE Southwest Incorporated and Contel of Texas, Inc. for Local Access Service Tariff Including Resale Services Pursuant to the Public Utility Regulatory Act of 1995, Section 3.2532, prefiled January 24, 1996. |

- 12879 Application of Southwestern Bell Telephone Company for Expanded Interconnection and Unbundling of Special Access DS1 and DS3 Services, prefiled June 9, 1995.
- 9981 Petition of the General Counsel to Inquire Into the Reasonableness of the Rates and Services of Central Telephone Company of Texas
- 8776 Petition of the General Counsel to Inquire Into the
8778 Reasonableness of the Rates of Sugar Land, Sweeny-Old
8779 Ocean and Peoples Telephone Companies
- 8585 Inquiry of the General Counsel Into the Reasonableness of the Rates and Services of Southwestern Bell Telephone Company
- 7330 Inquiry Into IntraLATA WATS Competition on Multi-jurisdictional WATS Access Lines
- 6200 Petition of Southwestern Bell Telephone Company for Authority to Change Rates
- 5800 Application of AT&T Communications of the Southwest, Incorporated for Authority to Implement "Reach Out Texas"
- 5764 Petition and Statement of Intent of West Texas Utilities Company to Set Rates
- 5738 Inquiry of the Public Utility Commission of Texas Into the Operations of Taylor Water Company
- 5540 Application of AT&T Communications of the Southwest, Incorporated for Authority to Increase Rates
- 5220 Petition of Southwestern Bell Telephone Company for Authority to Change Rates
- 5113 Phase II-Group 9 Petition of the Public Utility Commission of Texas for an Inquiry Concerning the Effects of the Modified Final Judgement and the Access Charge Order Upon Southwestern Bell Telephone Company and the Independent Telephone Companies of Texas
- 5113 Phase II-Group 3 Petition of the Public Utility Commission of Texas for an Inquiry Concerning the Effects of the Modified Final Judgement and

the Access Charge Order Upon Southwestern Bell Telephone Company and the Independent Telephone Companies of Texas.

- 5113 Phase II-Group 2 Petition of the Public Utility Commission of Texas for an Inquiry Concerning the Effects of the Modified Final Judgement and the Access Charge Order Upon Southwestern Bell Telephone Company and the Independent Telephone Companies of Texas
- 4716 Application of West Texas Utilities Company for a Systemwide Rate Increase
- 4545 Petition of Southwestern Bell Telephone Company for Authority to Change Rates
- 4602 Application of United Telephone Company of Texas, Inc.
4626 for Authority to Change Depreciation Rates in the Matter of the Application of United Telephone Company of Texas, Incorporated for Permission and Authority to Establish a New Schedule of Rates Applicable to Local Exchange Telephone Service in the State of Texas
- 4400 Petition of Central Power and Light Company to Set Rates
- 4300 Application of General Telephone Company of the Southwest for a Systemwide Rate Increase
- 4287 Application of Hemphill Contracting Company d/b/a/ Mitchell County Utility Company for a Rate Increase in Mitchell County, Texas
- 4171 Application of Gulf States-United Telephone Company for Authority to Change Rates
- 4142 Application of Northwest Water Systems, Incorporated for Authority to Change Rates
- 3944 Application of Hemphill Contracting Company d/b/a Mitchell County Utility Company, Incorporated for a Rate Change Increase in Mitchell County, Texas
- 3931 Application of Limestone County Cooperative, Incorporated for Authority to Change Rates
- 3885 Application of Aqua Service Company, for Authority to Change Rates

- 3749 Application of Toby Smith Water Company for Authority to Change Rates
- 3747 Application of Fannin Electric Cooperative, Incorporated for Authority to Change Rates
- 3697 Application of Chilton Water Works for a Rate Increase
- 3696 Application of Buena Vista Water System for a Rate Increase
- 3607 Application of Northwest Water Systems, Incorporated for a Rate Increase
- 3583 Application of Central Resources Corporation for a Rate Increase
- 3579 Application of Westlake Water Works for a Rate Increase
- 3532 Application of Geronimo Forest Water System for Sale,
3558 Transfer or Merger and for Authority to Change Rates
- 3505 Application of Utility Development and Research, Incorporated for a Rate Increase
- 3493 Application of Grande Casa Water System for a Rate Increase

Before the Texas Water Commission:

- 7144-M Complaint of Springwoods MUD, Williamson County MUD
- 7439-D No. 1, North Central Austin Growth Corridor MUD No. 1,
- 7448-D City of Rollingwood, and North Austin MUD No. 1 vs
- 7466-M City of Austin
- 7518-M

Other Jurisdictions:

Before the State of New Jersey Board of Regulatory Commissioners,
In the Matter of the Petition of New Jersey Telephone Company for
Approval of its Plan for Alternative Regulation, Docket No.
TO92030358, prefiled September 21, 1992.

Before the Public Service Commission of the Commonwealth of Kentucky, In the
Matter of: A Review of the Rates and Charges and Incentive Regulation Plan of South
Central Bell Telephone Company, Case No. 90-256, Phase II, prefiled June 14, 1991.

New York Public Service Commission, Case 92-C-0665, NYT Incentive Proceeding, Track I, prefiled September 7, 1993.

Before the Public Service Commission of the Commonwealth of Kentucky, In the Matter of: Application of BellSouth Telecommunications, Inc., d/b/a South Central Bell Telephone Company, to Modify Its Method of Regulation, Case No. 94-121, prefiled August 29, 1994.

Before the Georgia Public Service Commission, In the Matter of: In Re: Petition of BellSouth Telecommunications, Inc., d/b/a Southern Bell Telephone and Telegraph Company for Consideration and Approval of Georgians First, Docket No. 5258-U, prefiled October 17, 1994.

Before the Arkansas Public Service Commission, In the Matter of an Earnings Review of GTE Arkansas, Incorporated, Docket No. 94-301-U, prefiled March 17, 1995.

Before the North Carolina Utilities Commission, In the Matter of Investigation into Defined-Radius Discount Calling Plans and Access Charges, et al, Docket Nos. P-141, Sub 19 and P-100, Sub 65, Sub 72 and Sub 126, prefiled March 31, 1995.

Before the Kansas Corporation Commission, In the Matter of The Application of Southwestern Bell Telephone Company requesting tariff approval and designation of Local Plus, as a flexibly priced service as outlined in the TeleKansas order, Docket No. 166,856-U, Docket No. 191,994-U, prefiled April 7, 1995.

Before the Louisiana Public Service Commission, In the Matter of Development of Regulatory Plan for South Central Bell Telephone Company, Including Assessment of Alternative Forms of Regulation, Depreciation Methods and Expensing, Cost of Capital, Capital Structure, and Other Related Matters, Docket No. U-17949, Subdocket E, direct prefiled April 28, 1995, surrebuttal prefiled August 14, 1995, rebuttal prefiled October 27, 1995.

Before the Arkansas Public Service Commission, In the Matter of An Investigation Into of Allegations of IntraLATA Blocking, Docket No. 95-310-U, prefiled direct on May 26, 1995 and rebuttal on June 28, 1995.

Before the Arkansas Public Service Commission, In the Matter of the Non-Traffic Sensitive Elements of Intrastate Access Charges, and Carrier Common Line and Universal Service Fund Tariffs of the Local Exchange Telephone Companies, Docket No. 86-159-U, prefiled May 31, 1995.

Before the Tennessee Public Service Commission, In Re: Application of BellSouth Telecommunications, Inc., d/b/a South Central Bell Telephone Company for a Price Regulation Plan, Docket No. 95-02614, prefiled August 25, 1995.

Before the Public Service Commission of the State of Missouri, In the Matter of Southwestern Bell Telephone Company's Tariff Sheets to Revise P.S.C. Mo. - No. 36, Case No. TT-96-21 Optional Payment Plan (Volume and Term Discounts) for Switched Access Service, prefiled November 10, 1995.

Before the State Corporation Commission of the State of Kansas, In the Matter of a General Investigation into Competition Within the Telecommunications Industry in the State of Kansas, prefiled June 14, 1996, and rebuttal on July 15, 1996.

Before the Public Service Commission of the State of Missouri, In the Matter of Petition of MCI Telecommunications Corporation and its Affiliates, Including, MCI Metro Access Transmission Services, Inc. For Arbitration and Mediation Under the Federal Telecommunications Act of 1996 of Unresolved Interconnection Issues With Southwestern Bell Telephone Company, TO-97-67, prefiled September, 1996, and rebuttal on October 2, 1996.

Before the Public Service Commission of the State of Missouri, In the Matter of GTE Midwest Incorporated's Tariff Revision Designated to Provide IntraLATA Equal Access Conversion in GTE End Offices, TT-96-398, prefiled rebuttal testimony on December 20, 1996, and surrebuttal on January 17, 1997.