

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

COMPTel-MO

Case No. TW-97-333

FILED
JUN 9 1997
MISSOURI
PUBLIC SERVICE COMMISSION

SURREBUTTAL TESTIMONY

OF

MICHAEL JAY ENSRUD

Mission, Kansas
June, 1997

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 BOTH WRITTEN DIRECT
5 AND REBUTTAL TESTIMONY ON BEHALF OF COMPTTEL-MO AS PART OF
6 THIS PROCEEDING?

7 A. Yes.

8 Q. DO YOU HAVE FURTHER TESTIMONY TO SUBMIT IN RESPONSE TO THE
9 REBUTTAL TESTIMONY OF OTHERS IN THIS PROCEEDING?

10 A. Yes. The rebuttal testimony that gives CompTel-Mo members the most concern is that
11 of Ms. Barbara Meisenheimer when she states:

12 *Finally, the Commission should identify COS as being an "essential*
13 *local telecommunications service" in the absence of "effective*
14 *competition." This designation would ensure that high cost*
15 *consideration for Missouri USF funding incorporates COS offerings*
16 *for all LECs serving exchanges for which COS costs exceed COS*
17 *revenues and that LECs in high cost areas would be able to*
18 *recover the costs of providing COS.*

19 (Rebuttal/Page 9 - line 20)

20 If the Commission were to accept such a proposal, the Commission would place a huge
21 burden on the Missouri Universal Service Fund (MUSF) that is unjustified and
22 unwarranted.

1 The amount of total burden is unknown. However, Southwestern Bell (SWB) has
2 documented that its losses would translate to a \$5.3 million annual draw from the fund.

3 In her testimony, Debbie Bourneuf states:

4 *Q. DO THE CURRENT COS PRICES EXCEED SWBT'S COST*
5 *OF PROVIDING THE SERVICE?*

6 *A. No. SWBT's annual COS revenue is approximately \$1.6*
7 *million and its annual cost of providing the service is over \$6.9*
8 *million. This total cost includes access payments made to other*
9 *LECs in SWBT's provisioning of COS, as well as the estimated*
10 *incremental costs of the COS usage of SWBT's own customers.*

11 (Rebuttal/Page 4 - line 10)

12 If the annual costs are \$6.9 million, but annual revenue is merely \$1.6 million, SWB will
13 lost \$5.3 million a year by offering COS. If SWB is allowed to recapture the loss via
14 the MUSF, then there will be a "draw" from the fund of an equivalent of \$5.3 million.
15 That means that those contributing to the fund will have to pay more than would
16 otherwise be the case.

17 Q. WHY IS SUCH A DRAW FROM MUSF INAPPROPRIATE?

18 A. It is based upon the totally false premise that COS is an "essential local telecommuni-
19 cations service."

1 Only one-half of one percent of all access lines in the state utilize COS. This minute
2 level of usage is completely incongruous with the concept of an "essential local
3 telecommunications service." If COS is "essential" service, why do customers utilizing
4 99.5% of the total, state-wide number of lines manage to survive without COS? There
5 is no more compelling evidence that COS fails to meet any reasonable "essential service"
6 criteria, than the fact that 99.5% of all customer lines utilize a "normal," competitive
7 form of toll. The fact that the vast majority of customers function without COS utterly
8 refutes the assumption that those select few customers who utilize COS for one-half of
9 one percent of the total number of lines in the state, must have COS to continue to
10 function. If COS service is "essential," by any reasonable definition, the customers
11 across the state who utilize the service would not be as few.

12 Q. HOW DO YOU DERIVE THE "ONE-HALF OF ONE PERCENT" FIGURE?

13 A. I base this figure on the testimony of Ms. Bourneuf where she states:

14 *Based on the best data currently available to SWBT, it believes that*
15 *there are approximately 18,000 COS subscribers. These 18,000*
16 *total COS subscribers represent only about one-half of one percent*
17 *of all access lines in the state.*

18 (Rebuttal/Page 2 - lines 20 through 22)

19 Q. DOES SWBT EVER INDICATE THAT COS IS NOT AN "ESSENTIAL" SERVICE?

20 A. Yes, Ms. Bourneuf seems to imply that it is not. She testifies that:

1 *Clearly, the service is used to the benefit of a very small number*
2 *of very high use customers.*

3 (Rebuttal/page 3 - line 16)

4 Again, there is nothing "essential" about a very few customers who have very high usage
5 to a specific exchange, receiving a special "break" over normal toll rates. This is
6 especially true when the realization sets in that giving this special "break" to this select
7 group (COS users) results in other customers who have dispersed toll calling patterns,
8 or no toll calling, being required to pay higher rates so the select few can enjoy
9 subsidized rates.

10
11 I am sure that everyone who uses any service wishes they could receive the service at
12 a price which is below cost. Subsidization is a far less odious concept when the product
13 or service you use receives the subsidy. However, it is no less unequitable. Those
14 paying the subsidy take a quite different view of the situation. It is unfair to force other
15 customers to pay the subsidy when those customers also pay their own way via normal
16 toll, in addition to subsidizing the rates of others.

17
18 The position is true whether the subsidy being paid by others to support COS is
19 "implicit" (meaning other rates are raised higher than what they would be without COS)
20 or explicit (meaning the COS subsidy is an overt figure submitted to the MUSF
21 administrator). While CompTel-Mo does advocate showing any MUSF assessment as

1 a line item on the customer's bill, such a position is predicated upon there being merit
2 for subsidy for every issue which the Commission allows reimbursement from the fund.
3 COS fails to meet that criteria. Therefore, it is wrong to allow subsidy for COS,
4 whether it be implicit subsidy or explicit subsidy. In either instance, the subsidy being
5 requested for COS misses the prerequisite criteria - there is no compelling social good
6 that justifies others paying for the service of those select few who utilize COS.

7 Q. DOES SWB RECOMMEND THAT COS BE A SUBSIDIZED SERVICE?

8 A. No. Ms. Bourneuf testifies:

9 *In any event, SWBT does not believe that COS should be a*
10 *subsidized service, either for customers or for LECs.*

11 (Rebuttal/Page 5 - line 14)

12 CompTel-Mo members totally and wholeheartedly concur in this position.

13 Q. STARTING ON PAGE 26, LINE 5 OF HER REBUTTAL TESTIMONY, MS.
14 BOURNEUF CRITICIZES CERTAIN ASPECTS OF YOUR CRITERIA TO ALLOW
15 CONVERSION FROM NORMAL TOLL TO COS AND DISAGREES WITH YOUR
16 APPROACH. CAN YOU FURTHER EXPLAIN YOUR IDEAS ON THIS SUBJECT.

17 A. Yes. My understanding of Ms. Bourneuf's remarks is that my proposal is, somehow,
18 unjust or unfair because I require an analysis of each customer's billing in an exchange
19 to see if the majority of the customers would benefit from a conversion from "normal"
20 toll to a COS rate structure for the whole exchange. I still believe that such a criteria

1 is justified since it would appear that the expansion of COS has not been driven by the
2 majority of customers.

3
4 In today's environment, the service is customer-specific once COS is established. As
5 amply demonstrated throughout the testimony of others, COS expansion has cost the
6 greater majority of customers more for telecommunications service. The majority of
7 customers have been required to generate a subsidy to contribute to the payment for the
8 service of a select few who chose COS. Given the complexity of COS and the implicit
9 cross-subsidization inter-twined in the issue, it is unclear and probably unlikely that the
10 majority of customers understand that when one of the select few exercise the option to
11 use COS, these customers who exercise the COS option eventually raise other rates
12 which are predominately paid by the majority.

13
14 The assumption that the customer will make the proper economic choices is predicated
15 upon the customer having knowledge as to what the actual ramifications are of the
16 customer's choice. To a degree, the vast majority of customers do not know that when
17 the select few exercise their option to reduce their own rates by utilizing COS, that
18 choice will eventually raise the rates of others. Without a customer having knowledge
19 of how COS generates cross-subsidy, analysis of each customer's bill in the exchange is
20 justified. Assuming the whole ballot process clearly identified that all customers in the
21 exchange would pay a specified amount per month, once COS is in place, and each

1 customer was informed of what the customer's monthly toll to the targeted exchange had
2 averaged over the last six months, then the customer would have a clear understanding
3 of the consequences of the vote. A "pure" customer's vote may be a valid criteria under
4 those circumstances.

5
6 Part of the problem with COS is it has been elitist in nature. A vocal minority of
7 customers has driven this whole issue to extreme lengths. It is based upon the
8 assumption that, for some reason, a small number of customers who place a large volume
9 of calls to a specified exchange are entitled to have those calls delivered a price that is
10 below cost. Economic reality dictates this can only happen if others are willing to pay
11 more to create the subsidy.

12 Q. MS. BOURNEUF'S TESTIFIES THAT CUSTOMERS OUGHT TO ACTUALLY
13 VOTE ON COS ROUTES, INSTEAD OF RELYING UPON ANALYSIS OF EACH
14 CUSTOMER'S BILL TO DETERMINE THE MERIT OF ESTABLISHING COS. DO
15 YOU AGREE?

16 A. Unless the full ramification of such a vote is made very clear in the ballot process (as
17 described above), I find no merit to such a position. Barring a clear and concise ballot
18 showing what the customer will pay under COS and what the customer "averaged" under
19 "normal" toll rates, the customer's vote would be based upon a lack of knowledge as to
20 the cross-subsidies for the majority of customers in the COS exchange.

21

1 I could agree with Ms. Bourneuf's position if it was abundantly clear to all customers in
2 the exchange that by voting for COS, they were setting up a mechanism where those who
3 do not utilize COS will pay normal toll for their own long distance calls plus subsidize
4 the COS calling of those who do subscribe to COS. If that knowledge was available to
5 those customers who will be required to generate the subsidy, it is my belief that the
6 proposal would be voted down. If "non-pecuniary" interest¹ then resulted in a vote
7 showing acceptance of COS, then I would believe such a vote was fair, so long as those
8 voting were informed of the ramifications of COS.

9
10 It is only because the required cross-subsidization is not known to the majority of
11 customers that the vocal minority could "vote in" COS, assuming a pure vote on COS
12 was the criteria used to establish the service in any particular exchange.

13
14 I still retain my first preference that analysis of the customer's bill act as a surrogate for
15 a customer vote in exchange determination of whether COS is a valid choice. If the
16 Commission feels an actual vote is preferable, I suggest that some criteria be imposed
17 as a prerequisite to a vote taking place. For example, analysis of the customers' bill
18 must demonstrate that, at least, 25% of the total exchange would benefit (incur a savings)
19 by exercising the COS option prior to the Commission authorizing a vote. I believe that
20 such a criteria would relieve any concerns about "non-pecuniary" (as referenced in Ms.

¹As described in Ms. Bourneuf's rebuttal testimony, page 27, line 8.

1 Bourneuf's rebuttal testimony, page 27, line 8) values to COS. It would also greatly
2 curtail the use of COS since initial indications are far less than 25% of the customers in
3 an exchange benefit from COS. Instead, the vast majority, above 75%, pay more to
4 generate the subsidy.

5 Q. DO YOU HAVE AN OPINION ABOUT COS BEING AN OPTIONAL SERVICE?

6 A. Yes. The fact that the service is, today, optional, does nothing to justify the retention
7 of the service in its present form. Ms. Bourneuf states:

8 *Q. IS SWBT SUGGESTING THAT ANY CHANGE TO COS*
9 *SHOULD BE SUBJECT TO A CUSTOMER VOTE?*

10 *A. No. COS is currently an optional service, so customers in*
11 *the petitioning exchanges can make a choice as to whether they*
12 *want to participate.*

13 (Rebuttal/Page 29 - line 10)

14 As stated throughout my testimony, the very fact that COS is optional, and limited to
15 select locations is a flaw of the methodology in place today. There is nothing sacred
16 about a service being "optional," especially when viewed in the light of the fact that
17 every time a customer exercises that "option," higher rates are generated for others. The
18 optional nature of COS is not a good characteristic since, in this case, every time a
19 customer exercises that option, the customer gets a service similar to that offered to
20 others, but at a reduced rate. To further exacerbate the situation, exercising the option
21 generates higher rates for other customers not exercising the option.

1 What is transpiring is analogous to my advocating strip steak be priced at \$.99 per pound
2 by government edict. I would exercise that "option" by purchasing steak with great
3 rapidity. However, such an "option" would be unfair to others, if the subsidizing of strip
4 steak were limited to only a few locations and resulted in other grocery prices, across the
5 state, being higher to generate the subsidy needed to support a \$.99 per pound price on
6 strip steak. This is what is happening to telecommunications service via COS. It is
7 unjust and unfair.

8 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

9 A. Yes, it does.