Case No. IR-2004-0272
Southwestern Bell Telephone, L.P., d/b/a SBC Missouri
Direct Testimony of Jason Olson

Q. What is your name and business address?

A. My name is Jason Olson and my business address is One SBC Center, Room 3530, St. Louis, Missouri, 63101.

Q. By whom are you employed and in what capacity?

A. I am employed by Southwestern Bell Telephone, L.P., d/b/a SBC Missouri (SBC Missouri or SBC) as Director – Regulatory. I have responsibility for switched access and intraLATA toll tariffs and related regulatory issues.

Q. Please describe your work experience.

A. I began my career at SBC in August of 1997 as an intern in the Cost Analysis and Regulatory Group while attending graduate school. In this position, I was responsible for providing assistance in producing cost studies for SBC's retail and wholesale products. In July of 1998, I assumed the position of Manager – Cost Analysis and Regulatory. In this position, I was responsible for producing cost studies for SBC's products. In November of 2000, I assumed the position of Associate Director – Cost Analysis and Regulatory. In this position, I managed a group of five managers that produced cost studies for SBC's products. In January of 2001, I assumed the position of Director – Regulatory.

Q. Please describe your educational background.

A. I earned bachelors degrees in Economics and Political Science from North Dakota State University in Fargo, North Dakota in May of 1997. I earned a Masters degree in Economics from Southern Illinois University – Edwardsville in Edwardsville, Illinois in August of 1998. I am a candidate for a Masters of Business Administration degree from Washington University in St. Louis.

Q. Have you ever testified before the Missouri Public Service Commission ("Commission")?

A. Yes, I filed testimony in case Nos. TC-2001-402 and TM-2002-465.

Q. What is the purpose of your Direct Testimony?

A. My testimony responds to the rate design Fidelity Telephone Company ("Fidelity") proposed in its initial Direct Testimony, filed December 30, 2003. I set out SBC Missouri's position that the Commission should reject Fidelity's rate design proposal as too heavily dependent on switched access charges.

Q. What are the most important points the Commission should take away from your testimony?

A. The two most important points of my testimony are:

- SBC Missouri opposes Fidelity's proposed rate design as it unduly burdens Fidelity's access customers.
- High access rates negatively impact the development of competition and new service offerings.

<u>Background on Switched Access Rates</u>

Q. What are switched access rates?

A. Switched access rates are the per minute of use charges a LEC assesses for originating or terminating another telecommunications carrier's interexchange calls. For example, if an end-user in a Fidelity exchange has selected AT&T as its intraLATA toll provider, AT&T would be required to pay Fidelity's originating intraLATA switched access charges on all intraLATA long distance calls its customers in that Fidelity exchange make. Essentially, AT&T through these switched access charges, is paying Fidelity for the use of the Fidelity facilities AT&T needs to originate its customer's calls from that exchange. Similarly, if a SBC Missouri intraLATA toll customer placed a toll call to an end-user in a Fidelity exchange, SBC Missouri would be required to pay Fidelity's terminating intraLATA switched access charges for the use of Fidelity's facilities in terminating that SBC Missouri customer's call.

Q. What are the rate elements of switched access?

A. There are four elements of switched access. These four elements are Local Switching, Line Termination, Local Transport and CCL. Both the originating and the terminating switched access rates contain all four of these rate elements.

Q. What is the CCL rate elements designed to recover?

A. The CCL element was designed as a "contribution" element, meaning that its purpose was to contribute to the general overhead and profit of the company.

Q. How were the small telephone company switched access rate levels designed?

All four of the switched access rate levels were designed in the late 1980's at the elimination of the intra and interLATA toll pools. Under pooling, all toll providers contributed the retail toll revenues they received from their respective customers to the pool. Each provider was also allowed to withdraw from the pool the expenses it incurred in providing those services, and each provider received a return on its investment from the pool. When the pool was eliminated and carriers went to switched access rates, there was a concern to keep all carriers revenue neutral to what they had been drawing from the toll pools. The CCL element was then set at a level to make up the difference between what each company had been receiving through the pool and what each would receive through the new access elements, using a specified number of minutes of use from a designated test period.

<u>Fidelity's Proposed Access Rate Increase</u>

Q. What is Fidelity proposing with respect to switched access rates?

A. The attached table outlines the proposed access rate design. Fidelity proposed to increase the Carrier Common Line by 36.2%. Fidelity is combining the Directory Assistance Surcharge and Line Service Termination into its Local Switching rate element. The combined rate element is listed as "New Local Switching" in the table. This rate will also be increasing by 36.2%. Additionally, Fidelity is collapsing its mileage banded Local Transport into a single rate element. This change is not reflected on the table as it is not possible to calculate a percentage change due to the restructuring of the rate element.

Rate Element	Current Rate	Proposed Rate	Percent Change
Carrier Common Line	$0.038073	$0.051847	36.2%
Local Switching (LS)	$0.011083	Combined to form New LS Element	
Directory Assistance Surcharge	0.000238	Combined to form New LS Element	
Line Service Termination	0.005075	Combined to form New LS Element	
New Local Switching	$0.016396	$0.022328	36.2%
8xx Queries	$0.003100	0.004221	36.2%

Q. How much of the revenue shortfall claimed by Fidelity are the proposed access rates designed to cover?

A. According to testimony filed by Robert C. Schoonmaker on behalf of Fidelity, switched access revenues are going to increase by approximately $1.3 Million, or 36%. This $1.3 Million increase appears to recover approximately 55% of the revenue shortfall claimed by Fidelity.

Q. Why does SBC Missouri oppose Fidelity's proposed rate design?

A. SBC Missouri opposes the proposed rate design because it places too much recovery burden on switched access charges. Fidelity already has high access rates relative to other LECs in Missouri and Fidelity's access customers are being asked to bear a disproportionate amount of the claimed revenue shortfalls. According to a Staff of the Missouri Public Service Commission's *Switched Access Rate Comparison of ILECs* found on the Commission web site, Fidelity currently has the 14th highest intraLATA switched access rates in the state out of 44 ILECs. If the proposed rates are approved, Fidelity will have the 4th highest switched access rates in Missouri.

Q. Do high access rates negatively impact the development of competition in the telecommunications market?

A. Yes. High access rates negatively impact the development of competition in many ways. For example, the maintenance of high access rates by one LEC may dampen the desire of LECs in neighboring exchanges to establish new low-priced calling plans. In an on-the-record presentation before the Commission in the MCA investigation case,[1] attorneys representing small ILECs indicated that some small ILECs either have started, or are interested in starting, to offer expanded

[1] Case No. TO-2001-391.

calling from their exchanges to neighboring SBC Missouri exchanges. However, they indicated that it was not financially attractive to offer similar expanded calling plans to some neighboring ILEC exchanges because of the terminating access rates that they would have to pay to the neighboring ILEC.[2] CLECs also could be less likely to enter and to vigorously compete in exchanges that are next to ones with high access rates. High access rates increase the cost structure of CLECs because they will have to pay more to terminate traffic to surrounding exchanges. Inter-exchange carriers will also be less likely to develop low-priced calling plans and to vigorously compete in exchanges with higher access rates due to the cost to originate inter-exchange traffic. These examples show the negative impact of high access rates on the parity of service offerings and on the availability of competitive alternatives between rural and urban telecommunications users.

Q. Please summarize your testimony.

A. The Commission should reject the proposed access rate increases by Fidelity. Fidelity already has relatively high access rates when compared to other LECs in Missouri. Fidelity is asking its access service customers to bear an unreasonable share of its overall revenue requirements. Fidelity's attempt to recover over 50% of its revenue shortfall identified in this case through access rate increases would further unreasonably burden its access customers.

[2] Case No. TO-2001-391, Transcript of Proceedings, On-The-Record Presentation, July 15, 2002. See pages 141-142 for discussion by Mr. Craig Johnson, an attorney for the Missouri Independent Telephone Group; and pages 148-149 for discussion by Mr. W.R. England, an attorney for the Small Telephone Company Group , concerning access charges and the availability of toll plans. Mr. England states, "[s]o we can economically offer a block of time to those customers that want to call into Bell towns, but, quite

1 **Q. Does this conclude your testimony.**

2 A. Yes it does.

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honestly, we can't do it for Verizon or Sprint or some other small company exchanges, depending on those terminating costs." (pp. 148-149).