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August 8, 1997

FILED
AUG 8 1997
MISSOURI
PUBLIC SERVICE COMMISSION

Mr. Cecil I. Wright
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

Re: Case No. TW-97-333

Dear Mr. Wright:

Enclosed for filing in the above-referenced matter, please find an original and fourteen copies of the Initial Brief of the Small Telephone Company Group.

Please see that this filing is brought to the attention of the appropriate Commission personnel. Copies of the foregoing document are being either hand-delivered or sent via facsimile to parties of record.

If there are any questions regarding this filing, please direct them to the undersigned. I thank you in advance for your cooperation in this matter.

Sincerely,

WR England III

W.R. England, III

WRE/da
Enclosures
cc: Parties of Record

FILED

AUG 8 1997

MISSOURI
PUBLIC SERVICE COMMISSION

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 the State of Missouri.	)))	CASE NO. TW-97-333

INITIAL BRIEF OF THE SMALL TELEPHONE COMPANY GROUP

INTRODUCTION

The Small Telephone Company Group (hereinafter "STCG") has been a participant in this proceeding as well as previous Missouri Public Service Commission (hereinafter "Commission") dockets and industry discussions regarding expanded calling scopes for Missouri telephone customers. Over the years, the Commission has implemented and refined various interexchange calling plans to address the changing calling requirements of rural communities. See, e.g., Extended Area Service, 29 Mo. P.S.C. (N.S.) 74 (1987). Although the Commission has experimented with different approaches to this problem, it has always recognized the importance of these interexchange calling plans.

Early on, when operator services were offered manually, Extended Area Service ("EAS") was proposed by Local Exchange Carriers ("LECs") as a way to save costs and provide customers a wider calling area. (Schoonmaker Direct, Ex. 6, p. 4) EAS was typically offered on a flat rate basis and, in all but one case, was a mandatory, two-way service offering. Id. When toll calling became mechanized, however, the cost savings associated with EAS evaporated. Id. Loss of toll revenue and problems with intercompany compensation made EAS less attractive to the telephone companies. Id. Additionally, customer demand for an interexchange calling plan was frustrated in the late 1980s

18.

by high flat-rate EAS charges which discouraged customer participation. Id.

In 1985, the Commission opened docket TO-86-8 to investigate issues related to the provision of EAS and to address customer demands for wider toll-free calling scopes. (Schoonmaker Direct, Ex. 6, p. 4) As a result of this docket, the Commission established an experimental Extended Measured Service ("EMS"). Id. at 5. EMS, offered as an optional service, provided a 50% discount on toll rates between exchanges which requested the service and met the calling criteria. Id.

Although the telephone companies vigorously debated the benefits and drawbacks of expanded area calling services, the Commission found that "the continued offering of a service which allows extra-exchange calling within a demonstrated community of interest at less than toll rates is a sound solution to an evident problem." Extended Area Service, 29 Mo. P.S.C. (N.S.) 74, 99 (1987). The Commission noted that "present exchange boundaries were established in the early 1900s. Since then a revolution in transportation has occurred with the replacement of the horse and buggy by the automobile." Id. at 100. This change expanded the area in which telephone customers live, work, attend school and church, receive medical care, purchase goods and services and perform other daily functions. Id; see also Expanded Calling Scopes, 2 Mo. P.S.C. 3d 1, 45 (1992). More recently, the resources of rural communities, including schools, medical offices, and places of business, have been consolidated.

Calling scopes, however, have not changed to reflect advances in technology and the evolving makeup of rural communities. Because some communities now stretch over several telephone exchanges, customers must make toll calls to communicate with their children's school, their church, their medical providers, their place of work, and the merchants from whom they purchase goods and services. Extended Area Service, 29 Mo. P.S.C. (N. S.) 74, 100 (1987). In TO-

86-8, the Commission recognized that "[i]n the course of their daily lives, these people are forced to make toll calls, not as a matter of discretion but as an unavoidable expense." Id.

In 1989, the Commission reaffirmed its commitment to provide "a reasonably priced extra-exchange calling service to customers in exchanges demonstrating a community of interest." Extended Measured Service, 30 Mo. P.S.C. (N.S.) 45, 48. It was in this case that the Commission implemented the three original Community Optional Calling Service ("COS") options. (Schoonmaker Direct, Ex. 6, pp. 5-6) The first option was a 50% discount from toll rates for a $4 monthly charge. Id. at 6. The second option was a one-way flat rate plan. Id. The third option was a two-way flat rate plan. Id.

In 1992, the Commission replaced the one-way COS and the 50% discount plan with the Metropolitan Calling Area ("MCA") and Outstate Calling Area ("OCA") plans. Id. at pp. 8-10. The Commission retained the two-way COS plan as a premium service, stating that "[t]wo-way flat rate calling between exchanges is a service which, in addition to OCA, **will provide the full range of services to outstate exchanges**." Expanded Calling Scopes, 2 Mo. P.S.C. 3d 1, 28 (1992) (emphasis added). The Commission stated two reasons for retaining COS. First, the Commission noted that "[c]ommunities of interest may exist or may develop which are beyond the 23-mile limitation of OCA and a service should be available in those instances." Id. Second, the Commission recognized that "there may be instances where communities of interest are so substantial that two-way calling may more adequately address customers' desires than does the one-way reciprocal service of OCA." Id. The Commission then determined that the demand for COS and the success of COS in certain exchanges made elimination of the service unreasonable and unrealistic at that time. Id.

Today, COS, MCA, and OCA provide a statewide solution to the problems associated with calling exchanges. MCA meets the needs of those rural customers living near Missouri's three largest metropolitan areas, OCA meets the one-way calling needs of Missouri's rural customers, and COS meets the two-way calling needs of Missouri's rural customers. These three services, developed after years of effort by the customers, the industry, the Office of Public Counsel, the Staff, and the Commission itself, were implemented to satisfy distinct and justifiable customer demands. (Schoonmaker Rebuttal, Ex. 7, p. 2) COS continues to meet this public need, and there are currently over 17,000 subscribers on 159 routes (Schoonmaker Direct, Ex. 6, p. 11) In addition, tens of thousands of additional customers in COS target exchanges benefit from COS by being able to call COS customers on a toll-free basis. Id. These customers will be understandably upset if a service which was gained after such effort is taken away. (Tr. 356-357)

The specific positions taken by the STCG in this proceeding are addressed in the order in which these issues are set forth in the Issues Memorandum. In addition, the STCG will respond to the additional issues of true-ups, T/O ratios, internet usage, and the timing of any changes that may occur with COS. To the extent the STCG does not take a position with respect to a particular issue, this should not be construed as support for or opposition to any party's position.

I. Straw Proposals, Compensation Mechanism, and Proposed Alternatives

A.1. COS via 800/888 Number Based Service

The 800/888 proposal best preserves the important two-way calling feature of COS, a feature that the Commission has found to be a significant benefit to customers in past proceedings when it has considered and rejected proposals for a one-way reciprocal mechanism. (Schoonmaker Direct, Ex. 6, p. 15) Also, the 800/888 proposal's return calling feature could be used by customers in the target exchange regardless of which interexchange carrier ("IXC") they choose as their intraLATA carrier. Id. Thus, the 800/888 proposal most closely resembles the present COS and has the minimum impact on the thousands of COS customers. Id.

The 800/888 proposal would allow other important features of COS, such as directory listings in the target exchange directory, to be maintained. Id. Since calls to the COS subscriber from locations other than the target exchange will continue to be dialed and billed using the subscriber's regular number, the 800/888 proposal will not have any negative impacts on the termination of toll services from other locations. Id. at 16. The 800/888 proposal is also the most likely to satisfy the many COS customers since it incorporates the two-way calling feature of the current COS. Id.

One of the main criticisms of the 800/888 proposal centers on the problem of 800/888 number depletion. Opponents of the 800/888 proposal believe that provisioning COS via 800/888 numbers would contribute to the exhaustion of the 800 and 888 Numbering Plan Areas ("NPAs"). (Bourneuf Direct, Ex. 23, pp. 5-6) Although the depletion of the 800/888 NPAs is a legitimate concern, there are a number of reasons why depletion does not outweigh the benefits of providing COS via 800/888 numbers. First, provisioning COS via 800/888 numbers will have a limited impact on the total pool of 800/888 numbers. (Schoonmaker Rebuttal, Ex. 7, pp. 8-10). Second, the possibility of a special allocation of 800/888 numbers by the FCC or an 800/888 NPA administrator could allay the telephone companies' concerns about their individual allocations of 800/888 numbers. (Tr. 311-312)

Interestingly, some of the same parties opposed to the provisioning of COS via 800/888 numbers suggest "competitive 800 number services" as an alternative for rural customers. See, e.g., (Bourneuf Direct, Ex. 23, p. 4) ("For those customers with a desire for toll-free inward calling, there is already a wide array of competitive 800 service offerings to which they may subscribe in order to meet their toll-free inward calling needs.") Both proposals will have a similar impact on the exhaustion of the 800 and 888 NPAs; however, the "competitive 800 service" is offered at prices that are generally even higher than the intraLATA toll rates on COS routes. (Schoonmaker Surrebuttal, Ex. 8, p. 8) Thus, the difference between provisioning an expanded area calling plan via 800/888 COS versus a "competitive 800 service offering" appears to be simply one of pricing (Jones Rebuttal, Ex. 3, pp. 5-6; Schoonmaker Rebuttal, Ex. 7, pp. 2-3) In fact, this "competitive service" may be more expensive than the high toll rates which originally caused numerous customer complaints both to the Commission and the legislature. (Schoonmaker Surrebuttal, Ex. 8, pp. 7-8)

Two other drawbacks have been identified with the 800/888 proposal. It will require customers to utilize two different phone numbers, and it may also cause some confusion as to the scope of its toll-free calling area. (Schoonmaker Direct, Ex. 6, pp. 16-17) However, customers' repeatedly expressed desire for two-way calling makes it likely that customers would prefer a service with these minor drawbacks over an alternative which would remove the two-way calling feature of COS. Id.

A.2. Should One-Way Reciprocal COS replace two-way COS?

The one-way reciprocal COS proposal would provide customers in a COS target exchange with the option to subscribe to COS and make toll-free calls back to the petitioning exchange. Thus, some degree of two-way calling could continue. Customers in the target exchange who chose to subscribe to the one-way reciprocal COS would also have a larger calling scope than they currently do under existing COS because they could call all of the customers in the petitioning exchange.

(Bourneuf Direct, Ex. 23, p. 10)

The major drawback of one-way reciprocal COS is that it lacks the "automatic" two-way calling feature of COS. Consequently, this proposal does not allow a COS subscriber in the petitioning exchange any means of paying for the return service to encourage calling from the target exchange to the petitioning exchange. (Schoonmaker Direct, Ex. 6, p. 18) It also does not meet the needs of COS subscribers who work, shop, or have children in school in the target exchange and who need a means to call their homes without toll charges. Id. Customer desires for two-way service are much greater now than they were in the past, and the one-way proposal does not address those desires. Id. Consequently, the one-way reciprocal COS proposal would eliminate the valuable two-way feature of COS without providing any alternative in its place.[1] Id. Nonetheless, the one-way reciprocal proposal is still superior, in the STCG's opinion, to the one-way only option.

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[1]At least one witness, however, has proposed that by "coupling" one-way COS with remote call forwarding ("RCF") a two-way service could effectively be created by the customer.

> The one-way reciprocally available straw COS proposal effectively allows customers to create a two-way service using currently tariffed RCF services. COS customers in the petitioning exchange could subscribe to one-way COS in their exchange. In addition, they could purchase an RCF service from the target exchange LEC at its tariffed rate. They could then purchase one-way COS on their RCF number in the target exchange for calling back to the petitioning exchange. Customers in the COS target exchange could similarly create a two-way calling service with the petitioning exchange. In this way, customers who desire a two-way calling service can separately purchase the outgoing and incoming calling to provide exactly the same service as two-way COS under the RCF methodology. However, customers would also have the flexibility of choosing only a one-way service if they did not need a two-way service, or did not want the problems associated with having two telephone numbers. Also, the company actually providing the RCF would be compensated for it at its currently tariffed rate.

(Bourneuf Surrebuttal, Ex. 25, pp. 21-22)

A.3. Should one-way only COS Service replace two-way COS?

This proposal lacks the important two-way calling feature of the present COS, and it approaches duplication of the present OCA service. For the customer, there are three differences between the one-way proposal and OCA. First, the rates are different. COS currently has a distinct pricing advantage over OCA.[2] Second, OCA is offered as a flat rate service with the option of a two hour or a five hour block of time each month. Any OCA calling which exceeds the purchased two or five hour block of time is billed at an incremental rate. Assumedly, the one-way only COS would be offered as a flat rate service with no limit on time. Third, OCA is offered automatically to any community within a 23-mile radius. Assumedly, the one-way only COS would continue to employ the community of interest criteria.

One-way COS was not nearly as successful as two-way COS when both options were offered. (Schoonmaker Direct, Ex. 6, p. 11) Many customers were dissatisfied with the one-way service because they could not use it to have friends and relatives call them from the target exchange. Id. Also, one-way COS did not allow toll-free calls to businesses in the petitioning exchange. Id.

In TO-92-306, the Commission sought to address the expanded calling needs of rural customers with two distinct services: COS and OCA. The Commission stated that "[t]wo-way flat rate calling between exchanges is a service which, in addition to OCA, will provide the full range of services to outstate exchanges." Expanded Calling Scopes, 2 Mo. P.S.C. 3d 1, 28 (1992). The

[2] If COS residential customers making an average amount of calling per month (i.e., 7.75 hours) were required to pay OCA rates for this same amount of calling, they would experience an increase in their rates ranging from 77% to 303% under the OCA two hour plan, depending on time of day and the distance of the call. Under the OCA five hour plan a residential customer would experience an approximate 109% increase. (See late-filed exhibit No. 40).

Commission also noted that substantial communities of interest may be better served by a two-way calling service. Id.

Today, COS subscribers make an average of 7.75 hours of COS calls per month, and they receive about 5.75 hours of COS calls back from the target exchange. (Schoonmaker Direct, Ex. 6, p. 11) The average amount of return calling is significant, and return calling actually exceeds the calling from the petitioning exchange to the target exchange on some routes. (Tr. 496-497) On one COS route, with no known internet use, the return calling was five times greater than the calling from the petitioning exchange. Id.

The STCG believes that the Commission should try to retain the two-way feature of COS as much as possible while still accommodating intraLATA presubscription. However, if the Commission chooses not to keep COS as a two-way service, it should, at the very least, retain COS as a one-way offering.

A.4. Should COS be eliminated completely?

COS should not be eliminated. COS is a valuable service which was developed to meet distinct and justified customer demands. (Schoonmaker Rebuttal, Ex. 7, p. 2) The Commission has spent many years developing the present COS, and COS currently meets the needs of thousands of customers. These customers want this service, and their desires should be taken into account in the investigation into COS. Although COS service will have to be modified with the implementation of intraLATA presubscription, it should not be completely eliminated.

As the Commission is well aware, intraLATA presubscription and the possibility of alterations to the PTC plan make the future direction of COS a difficult issue. (Smith Rebuttal, Ex.

33, p. 9) However, "all of the complexities in modifying the service" do not outweigh the continued customer desire for the service, the underlying rationale for providing the service, and the years of effort by the customers, the industry, the Staff, the Office of Public Counsel, and the Commission itself in developing the service. COS was created to correct the inequities in outdated local calling scopes, and competition is unlikely to provide a comparable service. (Schoonmaker Rebuttal, Ex. 7, pp. 2-3) If COS is eliminated, then the rural customer is likely to pay much higher rates under competition. (Schoonmaker Rebuttal, Ex. 7, p. 3) ("[C]ustomers will pay considerably more . . . the prices will not be nearly as low as customers currently pay for COS.")

Such an increase in prices for rural customers may also run afoul of recent state and federal telecommunications acts which require comparable services at comparable prices for rural, high cost areas. Telecommunications Act of 1996, 47 U.S.C. §§ 254(b)(3) (availability of services)[3] and (g) (rates)[4]; § 392.185 RSMo Supp. 1996 (availability of services)[5]; §§ 392.200.4(1) and .5 RSMo Supp.

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[3] 47 U.S.C. § 254(b)(3) provides:

> Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

[4] 47 U.S.C. § 254(g) provides:

> Within 6 months after February 8, 1996, the Commission shall adopt rules to require that the rates charged by providers of interexchange telecommunications services to subscribers in rural and high cost areas shall be no higher than the rates charged by each such provider to its subscribers in urban areas. Such rules shall also require that a provider of interstate interexchange telecommunications services shall provide such services to its subscribers in each State at rates no higher than the rates charged to its subscribers in any other State.

1996 (rates)[6]. Increasing the prices for rural expanded calling services is particularly troublesome

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[5] § 392.185 RSMo Supp. 1996 states "provisions of this chapter shall be construed to:
(1) Promote universally available and widely affordable telecommunications services; . . .
(7) Promote parity of urban and rural telecommunications services;"

[6] § 392.200.4(1) RSMo Supp. 1996 provides:

> No telecommunications company may define a telecommunications service as a different telecommunications service based on the geographic area or other market segmentation within which such telecommunications service is offered or provided, unless the telecommunications company makes application and files a tariff or tariffs which propose relief from this subsection. Any such tariff shall be subject to the provisions of sections 392.220 and 392.230 and in any hearing thereon the burden shall be on the telecommunications company to show, by clear and convincing evidence, that the definition of such service based on the geographic area or other market within which such service is offered is reasonably necessary to promote the public interest and the purposes and policies of this chapter.

§ 392.200.5 RSMo Supp. 1996 provides:

> No telecommunications company may charge a different price per minute or other unit of measure for the same, substitutable, or equivalent interexchange telecommunications service provided over the same or equivalent distance between two points without filing a tariff for the offer or provision of such service pursuant to sections 392.220 and 392.230. In any proceeding under sections 392.220 and 392.230 wherein a telecommunications company seeks to charge a different price per minute or other unit of measure for the same, substitutable, or equivalent interexchange service, the burden shall be on the subject telecommunications company to show that such charges are in the public interest and consistent with the provisions and purposes of this chapter. The commission may modify or prohibit such charges if the subject telecommunications company fails to show that such charges are in the public interest and consistent with the provisions and purposes of this chapter. This subsection shall not apply to reasonable price discounts based on the volume of service provided, so long as such discounts are nondiscriminatory and offered under the same rates, terms, and conditions throughout a telecommunications company's certificated or service area.

in light of the requirement for comparable prices, especially when considering the preponderance of toll calling on average of rural customers in comparison with urban customers.[7] Eliminating COS also creates problems with the requirement that comparable services be made available in rural areas to those that are available in urban areas particularly in light of the fact that the majority of Southwestern Bell Telephone Company ("SWBT") customers have either EAS and/or MCA available. (Tr. 358) ("[T]here's only 7.4 percent of Bell's customers that don't have either MCA or EAS.")

B.1. Should the Current Compensation Mechanism for COS service be retained?

The STCG believes that the compensation mechanism should not be changed even though the provision of COS may need to be modified in order to accommodate presubscription. (Schoonmaker Direct, Ex. 6, p. 19) The compensation mechanism for COS is necessarily related to the classification of COS as toll or local. Therefore, the STCG will address compensation in the context of the classification of COS as toll or local in B.2., infra.

B.2. Should COS service be classified as a local service or a toll service?

COS is an interexchange service, not a local service. (Jones Surrebuttal, Ex. 4, p. 14) The local exchange companies with petitioning COS exchanges do not profess to provide COS service, and they do not provide intraLATA interexchange service. Id. at p. 16. Rather, they "only provide

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[7] The evidence in this case indicates that, on average, customers of the STCG member companies incur over three times the amount of intraLATA toll charges as customers of SWBT. (Tr. 668-669, 755-756)

exchange access service to the interexchange carriers providing interexchange service."[8] Id.

Although COS was once described as "other than toll", it has never been billed as local service on an access minute basis. (Tr. 355) When COS was treated as non-toll, intercompany compensation occurred on a revenue sharing basis rather than on an access minute basis. Id. In TO-92-306, the Commission determined that "COS shall be tariffed as toll by the PTCs and intercompany compensation shall be by access charges." Expanded Calling Scopes, 2 Mo. P.S.C. 3d 1, 31. The Commission found that this paradigm would be more reasonable in terms of tariffing and intercompany compensation than the prior revenue sharing plan. Id. ("Rather than continue a contractual support payment method of intercompany compensation which may or may not be modifiable, the Commission finds it is more reasonable to switch to access charges.")

COS is currently classified as a toll service, and intercompany compensation is handled like toll. (Tr. 786) If the classification of COS is changed from toll to local, a complete review of intercompany compensation would be required. (Schoonmaker Surrebuttal, Ex. 8, pp. 3-7) Changing responsibility for the payment of compensation from the Primary Toll Carrier ("PTC") to the originating LEC would create significant problems in administration, billing, and networking systems. Id. For example, the LECs would experience major difficulties in measuring traffic. (Tr. 354) Although the LECs have effective systems in place to measure specific calls at their originating end, they do not have a reliable means to measure specific calls at the terminating end. Id. One solution to this problem would be to have the originating telephone company record this data, extract

[8] § 386.020(17) RSMo Supp. 1996 defines exchange access service as "service provided by a local exchange telecommunications company which enables a telecommunications company or other customer to enter and exit the local exchange telecommunications network in order to originate or terminate interexchange telecommunications service."

it from their billing systems when they get to the point of billing, and then pass those records on to the terminating telephone company. Id. The terminating telephone company could then use these records to render a bill to the originating company for the amount of service that had been used. Id. However, such a complicated procedure has never been attempted at this level. Id; see also (Schoonmaker Surrebuttal, Ex. 8, pp. 2-7)

Intercompany compensation would also be a serious problem if COS is classified as local. Id. Telephone company access billing systems typically create a separate record of a toll recorded call shortly after the call record is created. (Schoonmaker Surrebuttal, Ex. 8, p. 5) Although this record duplicates much of the information in the toll record, it is sent through a separate processing system, the Carrier Access Billing System ("CABS"), in order to render the access bill. Id. Because the PTC currently pays access on both intraLATA toll and COS calls, these calls are handled the same way. Id. However, under a terminating compensation arrangement, COS and intraLATA toll calls would have to be handled differently since the access associated with the intraLATA toll call would continue to be billed to the PTC, but the COS call would not. Id. This would create a problem in the CABS, because normally when a call record is made for that system the billing system has no way to identify which type of call it is dealing with. Id. Solving this problem will be a difficult process. Id. at 7.

All of the administrative concerns, billing system changes, and technological issues will result in major expenses for the LECs. Id. The LECs generally lack the power of geographic averaging that the PTCs and the larger IXCs have today; therefore, shifting responsibility from the PTC to the LEC will result in pressure for higher rural rates. (Jones Surrebuttal, Ex. 4, p. 13) However, raising rural rates is contrary to the recent state and federal telecommunications acts which require parity between rural and urban areas in terms of both availability and pricing of services. Telecommunications Act of 1996, 47 U.S.C. §§ 254(b) (availability of services) and (g) (rates); § 392.185 RSMo Supp. 1996 (availability of services); § 392.200.4(1) and .5 RSMo Supp. 1996 (rates).

Finally, classifying COS as local may contradict Missouri law. Missouri law defines an interexchange telecommunications service as "telecommunications service between points in two or more exchanges." § 386.020(24) RSMo Supp. 1996. COS fits this definition. Missouri law defines a local exchange telecommunications service as "telecommunications service between points within an exchange." § 386.020(31) RSMo Supp. 1996. COS calling does not fit this definition because it travels **beyond** the local exchange. Furthermore, Senate Bill 507 has expressly excluded such calling services from the definition of a basic local telecommunications service. § 386.020(4)(h) RSMo Supp. 1996. ("Basic local telecommunications service does not include optional toll free calling outside a local calling scope but within a community of interest, available for an additional monthly fee . . .") Thus, COS cannot be classified as a local service under Missouri law.

B.3. Should aggregation and/or resale of COS service be allowed?

The STCG has no objection to a prohibition on aggregation. (Issues Memorandum, Ex. 1, p. 17) However, such a prohibition currently does not exist in the COS tariff. Id. Although the MCA and OCA tariffs expressly address the use of multi-line hunt groups, the COS tariff does not. (Schoonmaker Surrebuttal, Ex. 8, p. 20) SWBT's OCA tariff states that "OCA is available to multiline customers on a per account basis only." Id. The MCA tariff states that "In situations where a hunting arrangement between access lines is provided by the Telephone Company, no MCA line may be configured to hunt to a non-MCA line." Id. However, the there is no such prohibition in the COS tariff. Id.

Prohibiting resale is not allowed under the Telecommunications Act of 1996. (Jones Surrebuttal, Ex. 4, p. 18)

B.4. What is the potential impact of expected changes in the PTC Plan on COS?

Changes in the PTC plan may have significant impacts on the way in which telecommunications services are provided in the state of Missouri; however, the Commission has already established a preliminary procedural schedule in Case No. TO-97-220 to investigate these issues. (Schoonmaker Direct, Ex. 6, p. 21) Case No. TO-97-220[9] is the appropriate place to address the potential impacts of expected changes in the PTC plan. Id. The STCG believes that any one of the Commission's straw proposals could be implemented without much adjustment to the PTC plan.

II. ISSUES IDENTIFIED BY THE COMMISSION

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

The STCG does not agree with the pricing mechanism for one-way reciprocal COS set out by the Staff in Case No. TT-96-398. Review of calling data indicates that there is greater calling

[9] Now consolidated with Case No. TO-97-217.

under the current plan from the petitioning to the target exchange; thus, traffic from the petitioning exchange to the target exchange appears to have greater value. For this reason, the COS rate in the petitioning exchange should be set at a level higher than 50% of the two-way rates, while the rate in the target exchange should be less than 50% of the two-way rates. The STCG believes the one-way rate from the petitioning exchange should be 60% of the two-way rate, and the one-way rate from the target exchange should be 40% of the two-way rate. (Schoonmaker Direct, Ex. 6, pp. 19-20)

The STCG also disagrees with proposals to base the pricing of COS on cost. The rates established by the Commission for COS were never based on cost; rather, they were based on a subjective determination by the Commission of the value of the service to customers. (Schoonmaker Rebuttal, Ex. 7, p. 6) The primary focus of the Commission was to establish a service that met the interexchange calling demands of the customers, not on setting rates that would cover the costs of the service. Id. Moreover, basing COS rates on individual company costs virtually assures a wide disparity of rates between companies. Those companies, such as SWBT, who can average costs over a greater number of customers would expect to have significantly lower rates than a small, one exchange company such as New Florence Telephone Company. This disparity will recreate the "looking over the fence problem" which the Commission sought to eliminate by establishing statewide, uniform COS rates.

B. Shall all competitive LECs be required to offer this service?

Initially, the STCG took no position as to whether all competitive LECs should be required to offer COS. (Schoonmaker Direct, Ex. 6, p. 20) Upon further review, the STCG does not believe it is appropriate for the Commission to require any LEC, incumbent or competitive, to provide what is essentially an interexchange service. See argument section I.B.2 infra.

C. What, if any, change must be made in the primary toll carrier (PTC) plan to accommodate or accomplish the proposed COS changes herein?

The STCG does not believe that any changes need to be made in the PTC plan to accommodate or accomplish the proposed modification of COS to provision return calling through 800/888 calling. Nor would any changes be required to implement the "one-way reciprocal" or "one-way only" proposals. The Commission has already established a preliminary procedural schedule in Case No. TO-97-220 to deal with the issues of dialing parity and other changes in the industry as they relate to the PTC plan. As the Commission considers those issues in that case, any possible impacts on COS must be considered in conjunction with any proposed changes to the PTC plan. (Schoonmaker Direct, Ex. 6, p. 21)

D. Shall the Commission stay all pending and future COS applications?

Since it is much easier to give customers a new and improved service than it is to modify or take away an existing service, all pending and future COS applications should be stayed until such time as issues related to the future of COS and the PTC plan have been decided and, if appropriate, implemented. Once those decisions are made, the Commission will be in a much better position to determine whether and how COS should be extended to additional communities. (Schoonmaker Direct, Ex. 6, pp. 21-22)

E. What is the Small Telephone Company Group's proposal for educating the public?

Educating the public about possible changes to COS has not been a controversial issue thus far. Staff and the other parties have all presented reasonable proposals for educating the public. While the STCG does not entirely agree with all of the proposals, the STCG believes all of the parties recognize that an effective education program will be critical if changes are made to COS. If the Commission adopts the 800/888 proposal, the STCG's proposal for educating the public involves a two-step approach. First, letter notification from the LEC should inform COS subscribers and customers in the target exchange of the changes that will take place in the offering of COS. The second step of notification would be related to the implementation of intraLATA presubscription. As implementation of this change takes place in the petitioning exchange, COS customers should be notified in writing of the impacts that subscribing to carriers other than the current PTC would have on their COS participation. (Schoonmaker Direct, Ex. 6, pp. 22-23)

If the Commission chooses a one-way reciprocal or a one-way only COS, existing COS customers should be notified of the proposed change before the Commission makes a final determination. COS customers should have the opportunity to submit comments and participate in public hearings before the Commission withdraws the existing service. If the Commission then decides to pursue a one-way reciprocal offering, COS customers and customers in the target exchange should be notified by letter of the modifications in the plan, including any service provision and rate changes, so they can choose whether to continue to subscribe to the modified COS. (Schoonmaker Direct, Ex. 6, pp. 23-24)

F. Is LATAwide or statewide flat-rate COS a viable substitute for the current COS arrangement?

A serious investigation of a LATAwide or a statewide COS plan will be difficult with the uncertainties that exist in the regulatory environment today. There are a large number of very significant issues that are currently pending and unresolved that could impact both the financial viability of such a possibility. Included in these are the federal high cost fund proceeding and a federal rulemaking on access reform and a pending federal rulemaking on additional access reform issues for rate-of-return regulated carriers at the federal level. Upcoming Missouri proceedings might also impact the operational and financial feasibility and/or desirability of offering a flat-rate calling plan or plans suggested by the Commission. Until these issues are resolved, it would not be appropriate to discuss such flat-rate calling plans. (Schoonmaker Direct, Ex. 6, pp. 24-25)

III. ADDITIONAL ISSUES RAISED BY THE COMMISSION

A(1). True-ups

In TO-92-306, the Commission implemented three services: COS, OCA, and MCA. Expanded Calling Scopes, 2 Mo. P.S.C. 3d 1 (1992). It was anticipated that implementation of OCA and COS would stimulate calling and thus increase the access revenues that small companies received. Thus, small companies, after the appropriate procedure and time frame was developed, trued-up their access rates in relationship to these services to ensure revenue neutrality as far as COS and OCA were concerned. (Tr. 351-352) For the PTCs, the costs of implementing MCA were also factored into these true-ups. Id. The PTCs also went through a revenue neutrality calculation and procedure in order to return to a revenue neutral position based on the services that were implemented at that time. Id. The issue raised at hearing appears to center on the concern for additional stimulation attributable to (1) growth in calling which occurred subsequent to the true-up period (i.e., six months after implementation) and (2) additional COS routes implemented after the true-up period. The Commission decision in Case No. TO-92-306 regarding revenue neutrality is not entirely clear why additional true-ups were not required. The notes of the Implementation Committee are no more instructive, although they do indicate that the parties discussed the issue. (Late-filed Ex. No. 41) Nevertheless, it seems reasonable to infer that if the lack of additional true-ups was a great concern to any party, then that party would have brought that concern to the attention of the Commission well in advance of this proceeding.

A(2). T/O ratios

The Oregon Farmers Mutual Telephone Company access tariff gives LECs the right to charge access on a measured basis; however, SWBT has indicated that it is unwilling to go to actual compensation unless all of the LECs move to actual compensation. (Tr. 105-106) Furthermore, there are likely to be substantial differences in the parties' interpretations as to what constitutes "actual usage." (Tr. 635-638)

B. Can the Commission mandate COS services in the current environment under the federal and state telecommunications acts?

The recent state and federal telecommunications acts require comparable services at comparable prices for rural, high cost areas. Telecommunications Act of 1996, §§ 254(b) (availability of services) and (g) (rates); § 392.185 RSMo Supp. 1996 (availability of services); § 392.200.4(1) and § 392.200.5 RSMo Supp. 1996 (rates). Eliminating COS entirely would seem to run afoul of the availability of services requirement since the majority of SWBT's customers have expanded calling through either EAS and/or MCA. (Tr. 358) Increasing the prices for rural interexchange calling services is also troublesome in light of the requirement for comparable prices, especially when considering the preponderance of toll calling, on average, of rural customers in comparison with urban customers.

C. Use of COS to provide internet access.

The STCG does not believe that use of COS by an internet service provider ("ISP") to connect end users with internet information services is a "sharing" or "resale" of COS by the ISP. (Schoonmaker Direct, Ex. 8, pp. 13). Rather, "the ISP purchases the service, whether local, toll, or COS, in order to provide to its customers an access vehicle for them to purchase the internet information services that the provider offers." Id. ISPs do not resell telecommunications services to their customers; instead, they consume those services to provide their customers with access to the information services which they actually do sell. Id. Similarly, ISPs do not share those communications services with their internet customers; they provide "the use of those services as the vehicle by which the internet customer can gain access to the purchased internet services." Id.

Internet service is an important resource for rural communities. It provides citizens in rural communities with instant access to a wide variety of information, allowing them to overcome previous barriers of distance, expense, and time. Rural communities want to take advantage of this resource; consequently, rural telephone companies have been under a great deal of pressure from community leaders and public officials to provide internet services to rural areas. (Jones Surrebuttal, Ex. 4, p. 17) Rural telephone companies have responded to this demand because many rural areas were not being served by internet providers. Internet service has not been a profitable proposition for rural telephone companies thus far. See, e.g., late-filed Ex. No. 44.

D. What does the time frame look like for any changes that may occur with COS?

The STCG estimates that it would take between three and six months to implement the 800/888 number proposal. (Schoonmaker Direct, Ex. 6, pp. 17-18) During this time it would be necessary to develop procedures for the change, notify customers of their options, process orders, and perform other related activities. Id.

The STCG estimates that it would take between six and eighteen months to change COS from a toll service to a local service which incorporates a terminating compensation arrangement. (Tr. 335-336) In fact, if the Commission decides to make substantial changes in COS, it would be appropriate to create a technical committee, as it did when it created COS, to address all of the technical, timing and intercompany compensation issues associated with implementation of a new expanded calling service.

CONCLUSION

COS satisfies the distinct and justifiable needs of rural customers; it allows rural customers to access their schools, hospitals, churches, businesses, workplaces, and the internet without paying toll charges. COS, along with MCA and OCA, is part of a statewide solution that was developed after years of effort by the customers, the industry, the Office of Public Counsel, the Commission's Staff, and the Commission itself. Together, these expanded calling scope plans provide parity for rural communities in terms of affordable and convenient access to larger calling scopes.

The STCG believes that it is important to preserve a service with the features of the present COS. Therefore, the STCG supports, in descending order, the 800/888 number proposal, the one-way reciprocal plan, and the one-way only plan.

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CERTIFICATE OF SERVICE

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