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July 1, 2002

Mr. Dale Hardy Roberts
Secretary
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Re: TR-2001-65

Dear Mr. Roberts

Enclosed for filing on behalf of Holway Telephone Company, Iamo Telephone Company and Green Hills Telephone Corporation, please find an original and eight (8) copies of the direct testimony of William J. Warinner. Please note that Schedules WJW2 and WJW3 are designated "Highly Confidential" as they contain information received from Staff which had been designated Highly Confidential. In addition, they contain confidential financial and business information.

Copies of the attached are being provided to counsel representing parties who have actively participated in this proceeding. In the event a party who has not actively participated in the docket would like a copy of Mr. Warinner's testimony, they may contact our office directly and we will provide one.

Would you please see that this filing is brought to the attention of the appropriate Commission personnel. I thank you in advance for your cooperation in this matter.

Sincerely,

W.R. England, III

WRE/lar
Enclosure
cc: Office of the Public Counsel
General Counsel
Parties of Record

Exhibit No.:
Issue: Cost of Access

Witness: William J. Warinner
Type of Exhibit: Direct Testimony

Sponsoring Party:
Holway Telephone Company
KLM Telephone Company
Iamo Telephone Company
Green Hills Telephone Corporation

Date: July 1, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. TR 2001-65

DIRECT TESTIMONY
OF WILLIAM J. WARINNER

ON BEHALF OF:

HOLWAY TELEPHONE COMPANY

KLM TELEPHONE COMPANY

IAMO TELEPHONE COMPANY

GREEN HILLS TELEPHONE CORPORATION

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DIRECT TESTIMONY

OF

WILLIAM J. WARINNER

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INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William J. Warinner. My business address is 10901 West 84th Terrace, Suite 101, Lenexa, Kansas, 66214-1631.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am the managing principal in the firm of Warinner, Gesinger & Associates, LLC, Certified Public Accountants.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I am a 1975 graduate of Rockhurst College in Kansas City, Missouri whereby I received a Bachelor of Science degree in Business Administration with a major in Accounting. In 1975, I was employed by the certified public accounting firm of Troupe Kehoe Whiteaker & Kent (TKWK) to assist in the preparation of income tax returns and certified financial audits. In 1976, I transferred to the Firm's regulated utility department where I was responsible for preparing rate case support and division of revenue cost studies for telephone company clients of the Firm. In 1978, I became manager of telecommunications regulatory services at TKWK. In 1983, I joined the consulting firm of Drees Dunn & Company as manager of regulatory services where my responsibilities included preparation of certified financial audits of independent telephone companies, preparation of toll

cost studies, preparation of access charge tariff filings, business planning and economic modeling. In 1988, I co-founded the certified public accounting firm of Frederick & Warinner (F&W). F&W was formed specifically to address the financial needs of rural independent telephone companies. At F&W, I developed *Revenue Management Systems*, a Part 36/69 cost allocation software system designed for use with personal computers. On January 1, 1995, I organized Frederick & Warinner, L.L.C. of which I am currently the managing principal. In April of 1999, the firm became Warinner, Gesinger & Associates, LLC.

I am a Certified Public Accountant and member of the American Institute of Certified Public Accountants. I currently hold a license to practice in the States of Kansas, Louisiana, Minnesota, Missouri, New York, Oklahoma, Texas, Wyoming and Washington, D.C.

My resume, presented as Schedule WJW-1, contains descriptions of the major engagements I have managed and provides the names of clients with whom I have worked.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS COMMISSION?

A. Yes. I have previously testified in the Primary Toll Carrier and IntraLATA Dialing Parity Case No. TO 99-254, related Revenue Neutrality Cases, No TT 2001-115, TO 99-507, TT 2001-116, TO 99-509, TT 2001-119, TO 99-508, TT

2001-120, TO 99-511, and the Missouri Universal Service (USF) Case No. TO 98-329.

Q. ON WHOSE BEHALF DO YOU PRESENT THIS TESTIMONY?

A. My testimony is presented on behalf of Holway Telephone Company, KLM Telephone Company, Iamo Telephone Company and Green Hills Telephone Corporation, hereinafter collectively referred to as "Holway, et. al.".

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my Direct Testimony is to address the "long term solution (cost methodology) which will result in just and reasonable rates for this (exchange access) service"[1] in Missouri. My testimony will discuss the appropriate methodologies for determining the cost of providing exchange access services in Missouri, the political inevitability to price the services while maintaining revenue neutrality, the impact of proposed rate changes on consumers, and the potential utilization of the Missouri Universal Service Fund (MoUSF) to supplement any lost revenues of high-cost local exchange carriers resulting from access charge reform in Missouri.

COST OF EXCHANGE ACCESS

Q. PLEASE DESCRIBE THE PROCESS USED TO PRODUCE THE COST OF EXCHANGE ACCESS THAT WILL BE PRESENTED IN THIS CASE.

A. The Missouri Public Service Commission (MPSC) instructed its Staff to "gather, compile and analyze such information as is necessary and useful, including particularly data concerning the actual costs incurred ... and Staff shall file the results."[2] Subsequently, the MPSC Staff issued a Request for Proposal (RFP), and Section 2.3, Performance Requirements, requires that the contractor compile detailed cost information of intrastate exchange access service in Missouri "which shall include .... carrier common line charges, local switching charges, line termination charges and local transport charges. The contractor should use a forward-looking costing method consistent with federal costing guidelines."

Section 2.3 of the RFP also requires that the contractor "recommend specific proposals for the rate structure and rate levels for the intrastate exchange access service offered by each basic local telephone company in Missouri." "If the rate proposals should directly affect any other subscribers, the contractor should clearly identify and quantify such impacts." "If the proposed rates result in decreased revenues, the contractor shall quantify the impact to the basic local service rates based on the assumption such revenue shortfalls are directly recovered by an increase in the company's basic local services." "The analysis should assume increases or decreases in the interexchange carrier's (IXC)

[1] See the Missouri Public Service Commission's Order, Page 1, issued on August 8, 2000, and effective on August 18, 2000.
[2] See the MPSC's Order, Page 3, issued August 8, 2000 and effective on August 18, 2000.

exchange access service expenses are fully passed on to the IXC's toll subscribers."

Ben Johnson & Associates, Inc.® (BJA) was selected as the contractor. Preliminary Cost Studies, prepared by BJA, were provided by the MPSC Staff the first of April, 2002, and Final Costs Studies were provided on June 1, 2002. (Note: The Cost Model data is incomplete for Holway and KLM). All references in this testimony to cost information and exchange access rates provided by BJA to the MPSC were derived from information contained in their report dated May 30, 2002 titled "Final Switched Access Cost Studies Prepared by Ben Johnson Associates, Inc.® on behalf of the Missouri Public Service Commission Staff. To the extent the cost information and rates calculated by BJA related to this proceeding are modified in any way, the rate comparisons contained in this testimony would need to modified to reflect the change.

Q. WHAT COST MODELS HAVE BEEN PRODUCED BY BJA FOR INTRASTATE EXCHANGE ACCESS?

A. Direct testimony from other parties regarding the BJA Cost Models will explain the costing methodology used by BJA. However, for purposes of my testimony, and in support of Schedule WJW-2, Comparison of Access Rates, I will briefly explain the basic concepts of the BJA cost models as I understand them.

Three different types of forward looking economic cost studies were prepared by BJA, and a narrative description was provided by the MPSC Staff on June 1, 2002 that explained the cost models methodologies.

The first model is called a "Stand Alone" and assumes that the cost of providing switched access service is based upon the use of facilities that are not shared with special access, interstate switched access, toll or local services. These costs are far higher than those produced in other studies and the results calculated an average small Incumbent Local Exchange Carrier (ILEC) rate, on average, of $0.37139 per minute of use.

The second model is identified as an "Average" model, and consists of two versions that reflect different approaches to the recovery of certain fixed costs. The "Pro rata" study allocates certain fixed costs based upon the volume of traffic typically carried over the facilities. This model developed an average small ILEC total rate per minute of $0.08318. The "Weighted" study uses an allocation method that gives greater "weight" to toll and access, and less to local traffic. This method produced an average small ILEC total rate per minute of $0.12226.

The third model is the "Total Service Long Run Incremental Cost" (TSLRIC) that assumes the fixed costs of the facilities would be incurred even if switched access were not provided, and therefore excludes these

costs from the cost study. This method produced an average small ILEC total rate per minute of $0.00501.

Q. DO YOU HAVE ANY CONCERNS REGARDING THE RESULTS OF THE COST MODELS PREPARED BY BJA?

A. Yes. First of all, the results produced by the Stand Alone and TSLRIC models are considered by BJA, in the information mentioned above, to be the pricing "ceiling" and "floor". Therefore, the small ILEC's average exchange access rates, in total, could range from between $0.00501 to $0.37139, and would be considered by BJA to be "based upon costs". These methodologies provide for a rather significant impact on the determination of local rates in either scenario.

Q. HAVE YOU CALCULATED THE IMPACT OF THE CHANGE IN ACCESS RATES AND LOCAL SERVICE RATES PRODUCED BY THE BJA STAND ALONE AND TSLRIC COST MODELS?

A. Yes. Schedule WJW-3 summarizes the impact of the Stand Alone Model, as the "Ceiling" and the TSLRIC as the "floor". For Holway, the increase in local rates, if the MPSC adopts the TSLRIC Model, would be $ 37.07 per line, per month. Conversely, if the MPSC adopts the "Stand Alone" Model, Holway would reduce its local rates by $ 98.08 per line, per month. The impact for the other companies produces results similar to that for Holway.

It would be difficult to justify either of these rate development methodologies from an economic or political standpoint.

Q. PLEASE EXPLAIN THE BASIS FOR THE "PRO RATA" AND "WEIGHTED" COST MODELS PROPOSED BY BEN JOHNSON ASSOCIATES, INC. FOR USE IN THESE PROCEEDINGS.

A. The BJA models incorporate forward looking costs, using several sources, to produce total company costs. Loop costs were developed using the FCC Synthesis Model; switching costs were developed using algorithms developed by BJA; and transport costs were developed using variations of Southwestern Bell's (SWBT) SPICE model (SBC Program for Interoffice and Circuit Equipment Costing) and Verizon's Integrated Cost Model (ICM).[3] The BJA model is being presented as a standard model for developing access costs to be used by the MPSC in the current access charge proceeding. However, once a model is adopted, the model will be subject to use and regulatory scrutiny in future rate proceedings as well.

Q. DO THE COST MODELS PROPOSED BY BJA PROVIDE FOR THE ALLOCATION OF COSTS TO THE APROPRIATE JURISDICTIONS FOR RATEMAKING PURPOSES?

[3] From Staff narrative description of cost models and methodologies outlined in their Report, Final Switched Access Cost Studies Prepared by Ben Johnson Associates, Inc., dated May 30, 2002.

A. Yes. When using the forward looking cost models proposed by BJA, a cost allocation methodology is still necessary to apportion the forward looking costs between the intrastate and interstate access jurisdictions.

The "pro rata" and "weighted" models incorporate an approach that is similar to jurisdictional cost allocations currently used by the ILECs. For example, in the preparation of Part 36/69 cost studies, certain traffic factors are required to allocate costs between the appropriate jurisdictions. The Subscriber Line Usage (SLU) factor is determined based upon traffic volumes sent over an ILEC's facilities. The Dial Equipment Minute (DEM) factor is determined based upon the SLU factor representing traffic switched by the ILEC, but "weighted" for cost allocation purposes, to the toll jurisdictions. The Subscriber Plant Factor (SPF) used for the allocation of subscriber loop costs was initially determined based on traffic volumes and "weighted" to toll services. Subsequent changes in cost allocation procedures changed SPF to a gross assignment methodology allocating 25% of loop costs to interstate toll and 75% to the state jurisdiction. The individual states were left by the FCC to determine further allocations of the state SPF factor between state toll and local services. The BJA models provide greater weight to long distance traffic than local traffic to reflect demand factors, such as the greater value associated with transmitting communications over longer distances, and the deterrent effect of attaching a price tag to long distance minutes.[4]

[4] See BJA Report, Final Switched Access Cost Studies, May 30, 2002, para. 1.b.

Q. WHAT ARE THE RESULTS OF THE FORWARD LOOKING COST MODELS PRESENTED BY BJA IN THIS PROCEEDING?

A. The BJA allocation of fixed costs methodology, in the "pro rata" and "weighted" versions of the Average costing model, produced an average total ILEC exchange access rate of between $0.08318 and $0.12226. It should be noted that the existing ILEC average total intrastate access rate, calculated from Missouri state-wide data, is $0.0863.[5] The results of the forward looking cost methodology presented by BJA supports the existing access rates charges of Holway et al.

Q. HAVE YOU PREPARED ANY COST INFORMATION FOR USE IN THIS PROCEEDING?

A. My firm provided certain costing information on behalf of Holway et.al. to Mr. Bob Schoonmaker, GVNW, Inc., who has performed an analysis of the cost information presented for the small Missouri telephone companies in this proceeding. Mr. Schoonmaker will address the results of the small company cost studies in his Direct Testimony. A summary of the rates produced by the small company cost studies is included as part of Schedule WJW-2.

Based on calculations of the Missouri ILECs, the average total ILEC exchange access rate under the "Base Case" costing methodology is $0.1060 which falls within the BJA range for the Average model of between $0.08318 and $0.12226.

[5] See Schedule WJW-2.

The average ILEC total rate, under the costing methodology proposed for use by the STCG, is $0.0793, which is less than the recommended rates reflected in the BJA Average Model.

POLITICAL INEVITABILITY TO PRICE SERVICES WHILE MAINTAINING REVENUE NEUTRALITY

Q. WOULD YOU PLEASE COMMENT ON THE DIRECTION THAT THE FCC HAS TAKEN REGARDING INTERSTATE ACCESS REFORMS AND THE PRICE OF INTERSTATE ACCESS SERVICES?

A. The record before the FCC provides a pretty clear picture of the impacts of interstate access reform on monthly recurring rates and the pricing of long distance services to end user customers. In order to decrease interstate toll rates, the FCC reduced interstate access charges by implementing a Subscriber Line Charge (SLC) to offset the cost of the local loop that was included in the interstate Carrier Common Line (CCL) element. For price cap carriers, the FCC subsequently adopted comprehensive reforms for access charges and universal service based in part from proposals submitted by the Coalition for Affordable Local and Long Distance Services (CALLS).[6] In response to the FCC's initiatives to reduce interstate access charges to toll providers, the IXCs promised reductions in interstate long distance rates charged to end user customers. Initially, as the SLC was phased up to $3.50 per month for residential consumers,

[6] See Interstate Access Support Order, 15 FCC Rcd at 12964 para. 1.

the FCC ensured that toll rates to end users would be decreased. However, with the increase of the SLC to $5.00 per month for residential customers, the record clearly indicates that toll rates, for all but the largest business customers of the IXCs, were left unchanged or even increased before the ink was dry on the FCC's order adopting the CALLS plan. The FCC was powerless to require toll rate reductions by the IXCs as a result of the reductions in interstate access charges. Consequently, the FCC no longer assumes any changes in toll rates resulting from reductions in interstate access charges. The interstate residential SLC was raised from $3.50 to $5.00 on January 1, 2002 and will increase again to $6.00 on July 1, 2002. During this same time frame, the interstate CCL rate will be decreased and is subject to be phased out completely by July 1, 2003. Interstate traffic sensitive access charges were also reduced by approximately $2.1 billion under the CALLS plan effective July 1, 2000.[7]

Q. WHAT ACCESS CHARGE REFORMS HAS THE FCC IMPLEMENTED FOR RATE-OF-RETURN CARRIERS?

A. For rate of return carriers, the FCC adopted access charge and universal service reforms based partly on the proposals presented by the Multi-Association Group (MAG). The MAG Order adopted by the FCC was intended to "provide more equal footing for competitors in the local and long distance markets, while ensuring that consumers in all areas of the country, especially those living in high-cost, rural areas, have access to telecommunications services at affordable and

[7] See Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, FCC 00-193, Rel. May 31, 2000.

reasonably comparable rates." This Order is "tailored to the needs of small and mid-sized local telephone companies serving rural and high-cost areas, and will help provide certainty and stability for rate-of-return carriers, encourage investment in rural America, and provide important consumer benefits."[8]

Q. HAVE INTERSTATE TOLL RATES BEEN IMPACTED BY THE FCC's ACCESS CHARGE AND UNIVERSAL SERVICE REFORMS ADOPTED IN THE MAG ORDER?

A. The bulk of the changes in interstate access charges adopted in the MAG Order are scheduled to become effective on July 1, 2002. As a result, these access charge reductions have yet to be realized by the IXCs and the impacts on interstate toll rates are unknown at the present time. However, if history repeats itself, there is not likely to be any change in interstate long distance rates provided to consumers in rural America.

Q. WHY IS THE ACTION OF THE FCC RELEVANT TO THE MPSC's PRICE OF EXCHANGE ACCESS SERVICE?

A. Ultimately, the MPSC must determine which Cost Model will provide a "long term solution that will result in just and reasonable rates" for exchange access services. However, the choice of a Model may depend upon the rates that the MPSC believes are "just and reasonable". Evidently, the FCC believes that the interstate access rate for CCL should be zero and that the end user should pay for

[8] See Interstate MAG Order, FCC 01-304, Released November 8, 2001, paragraph 3.

the majority of the interstate portion of the local loop through an interstate SLC charge, whether the end user makes an interstate toll call or not. The remainder of the interstate loop cost will be recovered through a newly implemented Interstate Common Line Support (ICLS) charge assessed to telecommunications service providers.

Some parties in this case also believe that the cost of the local loop should not be considered in the cost of switched access arguing that the cost of the loop is incurred whether a subscriber makes zero toll calls or a hundred toll calls. If the MPSC agrees with this methodology, then the intrastate cost of the loop must be recovered from services other than intrastate access charges to IXCs. These costs would more than likely be charged to end user customers through increases in local service rates.

Q. WHAT COST MODEL DO YOU RECOMMEND FOR USE IN SETTING EXCHANGE ACCESS RATES FOR ILECs IN MISSOURI?

A. I believe the MPSC should adopt a cost model based on actual costs to set exchange access rates for ILECs in Missouri for several reasons. First, the results of the forward looking cost models presented in this proceeding provide results similar to the proposed STCG studies that use actual costs. Actual costs can be readily identified from the records of the ILECs and cost models based on actual costs provide more assurance of recovery of existing and prospective investments. Cost models based on actual costs should help stimulate additional investments in

facilities and operating resources. Forward looking cost models present targets for investments and expenses set by regulators to replace regulatory oversight. These targets may in fact suppress investments in new technologies to the detriment of consumers if the cost of new technologies exceeds the hypothetical investments included in the forward looking cost models.

Furthermore, the ILECs do not have access to the forward looking cost models used by BJA in these proceedings and therefore could not produce similar studies in future rate proceedings before the MPSC. If the MPSC adopts any of the forward looking cost models proposed by BJA, then these models must be made available to the ILECs for analysis and use in future rate proceedings. It is my understanding that several costing models used in this proceeding by BJA are proprietary models owned by SWBT, Verizon and Sprint. There is also an additional cost to maintain the data bases associated with forward looking cost models whenever an ILEC or the MPSC proposes future changes in its rate structure. It's conceivable that the proxy models would have to be updated annually or on a biennial basis for use in future proceedings and competitive analysis.

Q. WHAT PRICE SHOULD BE CHARGED FOR EXCHANGE ACCESSS SERVICES?

A. The purpose of the Cost Models is to assist the MPSC in determining the price, or rates for the provision of exchange access services by ILECs. All of the Cost

Models utilize various assumptions to allocate costs to exchange access services. Additional assumptions were made to the models that produced different results. For example, the BJA Average Model offers two versions, producing average ILEC rates of $0.08318 and $0.12227. The small company studies, by revising factors from the "Base Case", changed the average ILEC rate from $0.1060 to $0.0793. The various cost models and study results presented in this proceeding actually tend to support the existing access rates of the ILECs in Missouri. I believe the existing access rates should be maintained at the option of the ILECs. For those ILECs who want to adopt access rates based on the studies of BJA or the STCG, I recommend that those ILECs be permitted to implement those changes on a revenue neutral basis.

Q. DO YOU BELIEVE THE MPSC's DECISION REGARDING THE PRICE TO CHARGE FOR EXCHANGE ACCESS SERVICES IS A POLITICAL DECISION?

A. Yes. The MPSC will ultimately choose the cost model that best supports their assessment of a "just and reasonable price" for ILEC services in Missouri. The "price" to charge for exchange access services will be a political decision to satisfy the concerns of the relevant parties to the proceeding. In past proceedings before the MPSC, the relevant parties included SWBT and the IXCs (AT&T, MCI/Worldcom and Sprint).

Once the choice of the appropriate Cost Model is made by the MPSC, and changes in state access charges may be indicated, tough political decisions must follow that involve determining the impacts of rate changes on other services in order to maintain revenue neutrality. If the proposed prices for exchange access services produce less revenue than the current rates, the loss of revenue will be subject to recovery from other services. Will the loss in revenue be recovered from an increase in basic local rates or should an intrastate SLC be implemented? Can the revenue losses be recovered through a high-cost fund established within the MoUSF? For those ILECs where the cost model suggests that the prices for exchange access should be higher, will access rates be increased and basic local rates decreased? These are tough decisions, as the outcome will affect not only who pays, but more importantly, who benefits, from the exchange access rates that are "just and reasonable".

Q. DO YOU BELIEVE THAT THE CURRENT PRICES FOR INTRASTATE SWITCHED ACCESS SERVICES FOR HOLWAY ET.AL. ARE "JUST AND REASONABLE"?

A. Yes. Each of the ILECS (Holway et. al.) I am representing were involved in an earnings investigation through a rate case process that was ordered by the MPSC when Holway et. al. filed changes in state access rates resulting from the elimination of the Primary Toll Carrier (PTC) Plan and the implementation of intraLATA dialing parity. These cases were settled by a unanimous stipulation and agreement, between Holway et. al., the Parties to the Case, and the MPSC.

Therefore, the existing rates of Holway et. al. can be considered "just and reasonable" from an earnings standpoint subject to current rate development policies of the MPSC. This is another reason to support maintaining the existing exchange access rates of Holway et. al. at their discretion.

THE IMPACT ON CONSUMERS

Q. WHO WILL BENEFIT FROM ANY REDUCTIONS TO EXCHANGE ACCESS SERVICES THAT WILL BE IMPLEMENTED AS A RESULT OF THIS CASE?

A. Telecommunication carriers who pay intrastate access charges to ILECs will benefit from a reduction in the rates for exchange access services. These include, but are not necessarily limited to, facility based IXCs and underlying toll providers, (i.e. AT&T, Sprint, Worldcom), and the former Primary Toll Carriers (PTCs), (i.e. Southwestern Bell Telephone Company, Sprint, Verizon). Exchange access and local services provided to wireless carriers and competitive local exchange carriers (CLEC), under interconnection agreements, would not be affected. Wireless carriers and CLECs, who are required to pay access charges to the ILECs for terminating toll traffic to ILEC end offices, will benefit from access charge reductions implemented by the MPSC when they begin paying the ILECs for the exchange access services provided.

Q. WILL END USER CUSTOMERS OF THE ILEC's BENEFIT FROM CHANGES IN EXCHANGE ACCESS CHARGES ORDERED BY THE MPSC?

A. Assuming access rate reductions are ordered as a result of these proceedings, end user customers may benefit if the toll providers decrease their toll rates due to reductions in their access expenses. However, judging from past history of the IXCs, (i.e. rebalanced rates of Missouri price-cap LECs and small ILEC rate reductions), the record demonstrates that the facility based IXCs and underlying toll providers usually do not "pass-through" the reduction in access expenses to customers or toll resellers.

Q. WHAT SERVICES COULD BE TARGETED TO RECOVER THE LOSS OF REVENUE FROM A REDUCTION IN EXCHANGE ACCESS CHARGES?

A. In addition to intrastate access services, the intrastate jurisdiction includes local, billing and collection, private line and special access services. Reductions in intrastate access rates would cause an increase in any one or all of the remaining intrastate services provided by ILECs. It is not likely that intrastate billing and collection rates can be increased due to the competitive nature of the business. Intrastate special access services should not be priced higher than interstate special access services to avoid "arbitrage" or "rate shopping". The most likely candidate for recovery of lost access revenues is the basic local service rate. However, in the event local rates are increased as a result of reductions in state

access charges, consumers will expect a benefit from the increase in local rates, such as a decrease in toll rates.

ILECs who are allowed to increase their local rates as a result of lost access revenues should be given the option to offer expanded toll free calling scopes to provide an increase in value of service to its customers. By expanding the local calling scope, some benefit would be provided to those "who pay" for the "just and reasonable" exchange access rates. Another option for recovery of lost access revenue would be the establishment of a high-cost provision within the MoUSF or the establishment of a state SLC. However, a state SLC would only be perceived by the customer as an increase in the basic local rate for telephone service. Or perhaps, the MPSC could determine that all intrastate services should be increased to offset the revenue loss from the reduction in access rates.

POTENTIAL UTILIZATION OF THE HIGH COST PORTION OF THE MOUSF

Q. COULD A HIGH-COST PROVISION BE ESTABLISHED WITHIN THE MoUSF TO OFFSET THE REDUCTION IN ACCESS RATES?

A. Currently, the MPSC rules[9] require that any reduction in access rates can only be obtained through a (back door) revenue neutral tariff filing that is equal to, or less than, the amount of funds the company requested from the MoUSF (that may/may not be granted). In other words, under the existing MoUSF rules, the MPSC

[9] See 4 CSR 240.31.080 A. 6.

cannot target uniform access reductions for recovery from the MoUSF. The Missouri statute is somewhat ambiguous in its USF language. However, I believe that the existing language in the Missouri statute allows the MPSC to define "essential telecommunications services"[10] and the MPSC could include exchange access services in that definition. Once the MPSC includes access service in this definition, the "reasonably comparable local telecommunications services" portion of the Missouri statute could support a targeted access reduction with recovery from the MoUSF.

SUMMARY

Q. WILL YOU PLEASE SUMMARIZE YOUR DIRECT TESTIMONY?

A. The Cost Models presented in this case produce various "costs" from which the MPSC can determine the "price" for the provision of exchange access services within the state of Missouri. The BJA Models range from a low of $0.00501 (TSLRIC) to a high of $0.37139 (Stand Alone) for the total access rates of small ILECs. Under BJA's Average costing methodologies, the average ILEC state access rates range from $0.08318 using the "pro rata" option to $0.12227 using the "weighted" option. The small company studies are determined based upon embedded costs and produce an average state access rate of $0.0793 compared to the existing average ILEC rate of $0.0863. Holway et. al.'s existing composite access rates range from between $0.0732 for Green Hills to $0.1055 for Holway.

[10] Please refer to Section 392.248, 6 (1) of the Missouri Statutes on Universal Service

Holway et. al.'s existing access rates are considered "just and reasonable", as discussed previously and should not be changed except on an optional basis.

Once the MPSC has determined which cost Model best supports the "just and reasonable" rates for exchange access services in Missouri, the impacts of the changes in state access charges must be determined and a plan to make ILECs whole for lost access revenue must be implemented. If recovery of lost access revenue is implemented using increases in basic local rates, then expanded local calling plans should be optional so that known benefits can be provided to end user customers. Based on past experience, it is unlikely that any access expense savings will be reflected in lower toll rates by the IXCs. The MPSC could also explore the possibility of using the MoUSF to provide recovery for the revenue losses from reductions in intrastate access revenues.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

William J. Warinner, CPA

Managing Principal

Mr. Warinner, the managing principal in the firm of Warinner, Gesinger and Associates, LLC (formerly Frederick & Warinner, L.L.C.), has over twenty years of experience in all aspects of financial reporting and modeling for regulated telecommunications service providers. In engagements directed by Mr. Warinner on behalf of telecommunications service providers, he performed one or more of the following activities: certified financial audits, business valuations, development of cost allocation and earnings reporting systems including cost allocation manuals (CAM's), development of affiliated interest cost allocation and reporting systems and multi company cost allocation manuals, designed and implemented affiliate interest contracts for billing of inter company services between affiliates, jurisdictional cost allocation studies, development of toll access charge tariffs including tariff structure, rate development, earnings reporting and rate of return monitoring, revenue requirement development and rate design in conjunction with rate proceedings before state regulators and the Federal Communications Commission, development of management reporting systems using cost of service analysis models, development of management efficiency standards, and price analysis with earnings forecasting.

As a leading expert in the area of telecommunications, Mr. Warinner has presented on issues involving jurisdictional cost separations, competition, wireless communications, business valuations, management reporting systems and business planning before organizations including the National Exchange Carriers Association (NECA), the Organization for the Preservation and Advancement of Small Telephone Companies (OPASTCO), State Independent Telephone Association of Kansas (SITA) and the Alaska Public Utilities Commission.

Mr. Warinner's most recent testimony was delivered before Kansas Corporation Commission concerning deficiencies in inter-company terminating MOU billing practices in the state of Kansas and proposals for alternative billing procedures consistent with the competitive telecommunications environment.

Recent Projects

- Provided direct and surrebuttal testimony and exhibits before the Regulatory Commission of Alaska for the determination of jurisdictional rate base and operating income in conjunction with the earnings investigations of four local exchange carriers comprising six study areas in Alaska.

- Provided testimony before the Kansas Corporation Commission about deficiencies in current billing practices for the reporting of terminating minutes-of-use for billing between communications carriers in the state of Kansas.

Recent Projects Cont'd

- Provided testimony and exhibits in conjunction with earnings investigations of four independent telephone companies before the Missouri Public Service Commission.

- Testified as an expert witness before the Arkansas Public Service Commission about deficiencies in inter-company terminating MOU billing practices. Recommended alternative billing procedures more suited for a competitive telecommunications market place.

- Performed role as a lead auditor in compliance reviews of the Standards of Competitive Conduct by electric utilities in the State of New Jersey.

- Testified as an expert witness before the Public Utility Board of Puerto Rico on matters concerning the implementation of dialing parity and carrier access billing systems by competitive local exchange carriers.

- Testified as an expert witness before the Public Utility Commission of Texas about inherent problems in the current inter-company settlements process which utilizes Southwestern Bell's Category 92 originating records exchange procedures. Recommended alternative consistent with the competitive telecommunications environment which are in compliance with Texas Rules.

- Provided litigation support to Puerto Rico Telephone Company for case involving dial around compensation to payphone service providers.

- Performed analysis of billing systems and procedures for billing of interconnection traffic for Puerto Rico Telephone Company and negotiated settlement agreement for billing disputes with competitive service providers.

- Presented as an expert witness for the adoption of alternative switching equipment allocation methodology before the Regulatory Commission of Alaska.

- Designed toll resale business cases for independent telephone companies in states of Missouri and Kansas.

- Led strategic planning initiative for large local exchange carrier.

- Testified as an expert witness about dialing parity and terminating compensation issues concerning small telephone companies before the Missouri Public Service Commission.

- Performed an evaluation of a Minnesota Local Exchange Carrier.
- Project director for tariff services provided to Anchorage Telephone Utility.

- Performed cost separation services for Fairbanks Municipal Utilities System.

Recent Projects Cont'd

- Project director for valuation of $300 million municipal utility.
- Project director for affiliate interest review of Illinois Bell Telephone Company.
- Lead consultant in the affiliate interest review of Pennsylvania Bell Telephone Company.
- Project director for tariff services provided to statewide equal access provider.
- Developed multi-company cost allocation system for the reporting of affiliate transactions of several local exchange carriers.
- Project director for the audit of Percent Interstate Use (PIU) factors on behalf of two regional Bell operating companies.
- Project director for the audit of Common Line Usage Credits of NYNEX.
- Project director for the preparation of business office studies of Century Telephone.
- Performed valuation of a Minnesota Local Exchange Carrier.
- Designed *Revenue Management Systems (RMS),* to facilitate the processing of FCC Parts 36 and 69 cost allocations and projections on a microcomputer.
- Designed and implemented a software model for the development and reporting of access rates using the FCC's "Price Cap" methodology.
- Assisted in the development of traffic measurement system on an actual time basis.

Mr. Warinner directed or actively participated in engagements for the following companies:

- NYNEX
- U.S. West
- Sprint
- AT&T
- Puerto Rico Telephone Company
- Alaska Communications Systems
- Michigan Exchange Carriers Association
- Iowa Network Services, Inc.
- Arvig Communications Systems
  - Callaway Telephone Company
  - East Otter Tail Telephone Company
  - Twin Valley-Ulen Telephone Company
  - Tekstar Cablevision, Inc.
- Anchorage Telephone Utility
- Kansas Independent Networks, Inc.
- Fairbanks Municipal Utilities System
- Century Telephone Enterprises, Inc.

Participation in Engagements Cont'd

- Citizens Utilities Company of Arizona
- Citizens Utilities Company of California
- SJI, Inc.
  - Lafourche Telephone Company
  - MobileTel, Inc.
  - CSI, Inc.
  - SOLA Communications, Inc.
- Matanuska Telephone Association, Inc.
- Townes Telecommunications, Inc.
  - Walnut Hill Telephone Company
  - Haxtun Telephone Company
  - Tatum Telephone Company
  - Electra Telephone Company
  - MoKan Dial, Inc.
- Golden Wheat Inc.
  - Wheat State Telephone Company
  - Wheat State Telecable, Inc.
- Lynch Communications, Inc.
  - JBN Telephone Company
  - Haviland Telephone Company
  - Western New Mexico Telephone Company
- RBJ, Inc.
  - Holway Telephone Company
  - KLM Telephone Company
- CLR Video, L.L.C.
- MJD Communications, Inc.
- Mid-South Telecommunications, Inc.
  - Ontonagon Telephone Company
  - Midway Telephone Company
  - S&A Telephone Company
  - Kingsgate Telephone Company
- Northeast Florida Telephone Company
- GT Communications, Inc.
- Alma Telephone Company
- Chariton Valley Telephone Corporation
- Gulf Telephone Company
- Vista United Telephone Company
- Project Mutual Telephone Company
- IAMO Telephone Company
- Green Hills Telephone Corporation
- Oregon Farmers Mutual Telephone Company
- Rock Port Telephone Company
- Rainbow Telephone Cooperative Association, Inc.

Participation in Engagements Cont'd

- Rural Telephone Service Company
- Northeast Missouri Rural Telephone Company
- Modern Telephone Company
- Mid-Missouri Telephone Company
- Fidelity Telephone Company
- Bourbeuse Telephone Company

Mr. Warinner directed or actively participated in engagements for the following regulatory agencies:

- Illinois Commerce Commission
- Alaska Public Utility Commission
- Pennsylvania Public Utility Commission
- New Jersey Board of Public Utilities

Mr. Warinner has presented or testified before the following regulatory agencies:

- Illinois Commerce Commission
- Alaska Public Utility Commission
- Regulatory Commission of Alaska
- Texas Public Utility Commission
- Arkansas Public Service Commission
- Kansas Corporation Commission
- Missouri Public Service Commission
- Ohio Public Utilities Commission
- Indiana Utility Regulatory Commission

SCHEDULE WJW-2
"HIGHLY CONFIDENTIAL"

SCHEDULE WJW-3
"HIGHLY CONFIDENTIAL"