BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

IN THE MATTER OF THE APPLICATION OF AMERICAN OPERATOR SERVICES, INC., FOR A CERTIFICATE OF SERVICE AUTHORITY TO PROVIDE INTRASTATE OPERATOR-ASSISTED RESOLD TELECOMMUNICATIONS SERVICES	§ § § § § §	NO. TA-88-218 (consolidated)

AFFIDAVIT OF DENNIS THOMAS

STATE OF TEXAS §

COUNTY OF TRAVIS §

Dennis Thomas, of lawful age, on his oath states: that he prepared the attached direct testimony in question and answer form, consisting of 16 pages and 2 attachments, to be presented in the above case; that the answers in the attached direct testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Dennis C. Thomas

Dennis Thomas

Subscribed and sworn to before me this 29th day of August, 1988.

Renee Keller

Notary Public, State of Texas
Renee Keller
Commission Expires: 12-15-88

Exhibit No. 8
Date 9-20-88 Case No. TA-88-218 et al
Reporter Tweedy

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PREFILED REBUTTAL TESTIMONY OF DENNIS THOMAS ON BEHALF OF INTERNATIONAL TELELECHARGE, INC.

1. Q **Please state your name and business address.**

A Dennis Thomas, 98 San Jacinto Center, Suite 1750, Austin, Texas 78701.

2. Q **By whom are you retained and what is your capacity?**

A I am a consultant in the area of strategic management and public affairs and have been retained by International Telecharge, Inc. In addition, in June 1988 I was elected to the Board of Directors of International Telecharge and, therefore, also serve and represent the company in that capacity.

3. Q **Have you previously submitted prefiled testimony in this docket?**

A No.

4. Q **Would you then briefly summarize your background and experience?**

A I have been a state employee, consultant, teacher, and state official. Most recently I was Chairman of the Public Utility Commission of Texas, having been a member of the Commission from August 1984 until May 1988. I have a BBA in Finance, an MA in Public Administration, and a Ph.D. in Management, all from the University of Texas. I have attached a more detailed resume as Attachment A.

5. Q **What is the purpose of your rebuttal testimony?**

A I intend to rebut the testimony of Dianne Drainer, witness for the Public Counsel's Office, that competitive operator services are not in the public interest.

Instead, it is my belief that competitive operator services are the next logical development in a telecommunications market that weekly becomes more competitive, and are an essential link to many of he information services made possible by the merging of the telephone industry and the computer industry.

6. Q **How have you seen the telecommunications world change in the four years since divestiture?**

A I think most of us first experienced the breakup as individuals, rather than through any sense that we had undergone a national policy change. Unfortunately, most of the early personal experience was confusion and at times frustration with changes in the telephone system which most of us did not understand. We were not sure who to call when we had trouble with our phone. We received multiple bills, and we were introduced to a new set of artificial boundaries (LATAs) designated to divide the turf between AT&T and the regional Bell Operating Companies (RBOCs).

The first real change other than buying instead of leasing your phone was during the equal access subscription wars. Mailboxes overflowed and most consumers did not have the slightest idea who to pick.

7. Q **What was your experience as a telephone industry regulator over that time period?**

A When I joined the Texas Public Utility Commission in August 1984, divestiture related regulatory activity was beginning to heat up. Much of the activity was of a technical nature designed to test regulatory limits. I think of the feature group wars and access charge proceedings as fitting that category.

In Texas the competitive IXCs were already largely unregulated by tradition, and that did not change. Gradually, the real changes started when we allowed shared tenant services and approved a tariff for private payphones.

8. Q **How did consumers respond?**

A The implementation of customer balloting in equal access brought the first round of consumer complaints. My favorite case was when LDS, an IXC in San Antonio, discovered that its headquarter's phones had been subscribed to another carrier by mistake. The second round of consumer complaints came when private pay phones were first installed and many of the early versions did not work or ignored Commission rules on items like metering local calls. Of course, now the new private pay phones are several generations more sophisticated than public pay phones.

The dawn of information providers and the "976" and "chat lines" caused by far the most complaints. People did not like having to protect against messages that were available over their telephone. But even those most vocal, such as the statewide PTA, realized that the world of telecommunications had changed. They admitted we could not return to the past and advocated regulation of the new services rather than prohibition.

9. Q **What other changes did you see from divestiture?**

A Many of the significant changes were not very obvious at the time. One took place in 1984 when AT&T stopped paying commissions to the hospitality industry for the long distance traffic they aggregate. Hotels can mark up a 1+ call because they know the time and charges and can use the revenue to offset some of the cost of providing and maintaining the hotel telephone system. Without commissions on operator calls, the best the hotel can do is to add a per call surcharge on the hotel bill.

Another change was the decrease in the cost of switches compared to the cost of lines so that the balance shifted in favor of switches being less expensive than aggregating individual lines. This made more options available such as the development of competitive operator services. In fact, private pay phones started containing microprocessors and became essentially small switches themselves. With such intelligence they could be programed to aggregate operator assisted long distance traffic and therefore could be paid for the aggregation service. The revenue from long distance traffic made many more private pay phone locations profitable.

10. Q **Where does the operator service industry fit in this progression?**

A I believe the operator service industry is the next logical step in the development of competitive telecommunications. The operator service industry is composed of IXCs that offer operators. Most are currently resellers, but my company and several others are planning networks. They started in the hotel/motel industry when AT&T stopped paying commissions and, at approximately the same time, they started serving the pay phone industry as a means to take the billing information necessary to turn AT&T default traffic into revenue.

11. Q **Why didn't the first wave of IXCs move immediately to fill this market niche?**

A The IXCs were still struggling for profitability in 1985 and 1986 when the operator service industry was born and did not have excess capital to invest in new ventures. In addition, the operator service industry was not viable for the early IXCs because of its high labor intensity.

12. Q **Where is the operator service industry headed?**

A The difference between the first wave IXCs and operator service companies has already begun to blur, and I expect that trend to continue. Operator service companies will move to control their network costs and to even out usage peaks and valleys by seeking daytime business traffic and by creating their own networks. The IXCs on the otherhand need operators to compete in some of the upcoming changes in the industry. It therefore will be difficult to tell where one starts and the other stops.

13. Q **What are these upcoming changes?**

A The first change is related to the advent of equal access on the pay phones controlled by LECs governed by the MFJ. While the plans are still under development and review, it appears that several of the RBOCs will propose to invite the site owner to designate an interLATA carrier for the long distance traffic which the RBOCs are prohibited from carrying. The traffic is currently defaulted to AT&T.

Since much of the interLATA payphone traffic requires an operator to enter a credit card, process a collect call, or bill a third number, the operator service companies will be in a position to compete for the traffic. AT&T will obviously also compete to retain the traffic but will have to share revenue with the payphone aggregators to be competitive. It will be a little like the equal access competition on residential and business lines except the decision-makers have a revenue motivation rather than a cost avoidance motive.

The second change is similar but broader. In addition to payphones there is a larger body of interLATA traffic that the RBOCs default to AT&T. Default will not be possible in the future under a complete implementation of divestiture. A person making an interLATA call will be advised to access either the long distance carrier of their choice or the carrier subscribed to the phone by pressing double zero.

A change going to the opposite direction is the provision of operator services by the LECs to IXCs. The marriage is natural. The LECs cannot carry interLATA calls, but they do have operators. The IXCs can carry interLATA calls but need operators for a large portion of this new traffic. Obviously, the competitive operator service companies will compete with the LECs in some cases and against the first wave IXCs in other cases. The market should be quite interesting.

14. Q **What do you see as the benefit of all this competition?**

A In its most basic sense, competition brings about lower costs/prices and new products/better services. For example, even if AT&T retains its 95% plus share of the operator service marketplace, I expect that they will move to share revenue with the RBOC payphone site owners. After sharing revenue, they will have to be more efficient in order to maintain profits while charging the same rates.

After a while the prices will level out due to competition. Competition will then shift to new products and enhanced services.

15. Q **How can you say that competitive operator services are in the public interest when a caller has to be inconvenienced, as Ms. Drainer was, in order to reach a LEC or AT&T operator?**

A The answer to the first part of that question is changing as we speak. Operator service companies including ITI are moving to Feature Group D as fast as they possibly can because of the cost savings. In my opinion, only those companies that carry a major portion of their traffic over FGD will survive. Under a FGD connection an intraLATA call will automatically go to the LEC, including both 0- and 0+ calls. The FGD connection also helps remedy the problem of inadvertently billing an incomplete call because other types of connections sometimes lack answer supervision.

The second part of the question is more complex and can be answered from several different directions. In theory, one wonders why an AT&T operator should be a "right" -- equated by Ms. Drainer with the public interest. In practice however, a caller who cannot reach the carrier of their choice be it MCI, Sprint, ClayDesta or AT&T becomes an unhappy consumer and a business problem. ITI for that reason invested a great deal of money to develop a splash-back system, whereby we hand off the caller from the location where they are making the call.

Recently we have gone one step further. AT&T has been writing to their customers, encouraging them to request an AT&T operator. Unfortunately, AT&T does not provide 950 or 800 number access for their customers, unlike the competitive IXCs such as MCI or Sprint. That is the reason that a company like ITI gets very few complaints from MCI or Sprint customers about not being able to access the network of their choice. Those carriers provide an easy means of access.

ITI has responded to AT&T (letter attached as Attachment B) and requested that AT&T establish an 800 number access system. If they will do so, we will give out the number.

ITI is committed to freedom of choice for both the caller and the telephone owner or site owner. The caller should be able to access with ease the network of their choice and the telephone owner/site owner should be able to select the provider accessed by pushing 0.

16. Q **How can a company like ITI compete with AT&T on cost?**

A The operator service business is software based and ITI developed better software. Software is the result of individual effort as much as it is organization size, as we have seen in the software industry in general. "Better" in this case means faster and more powerful. Our software is designed to integrate new products such as concierge service for small hotels, an enhanced emergency service system, message forwarding, call processing on information calls, to name a few.

The operator service industry is also labor intensive. We believe our procedures for selecting, training, motivating and retaining operators give us a cost advantage. This is true even though we start our operators at a higher salary than AT&T and offer benefits such as dependent health insurance.

The operator service industry depends on a network and we believe we can combine switch efficiency and network efficiency in a cost competitive manner. The operator service industry depends on billing and collection and we believe that billing and collection through major credit cards can offer significant efficiencies in both costs and uncollectibles.

17. Q **In what cost components would you like to see the forces of competition more active?**

A Our telephone calling card validation costs are still too high and we would like to see multiple sources for the calling card data base to bring costs in line. In addition, we would like to see new competitive ways to bill calls placed to a third number or phone credit card such as a direct billing service other than being captive to billing only through the LEC. More competition might force the LEC charges to come more in line with what MasterCard, VISA or American Express charge to bill and collect.

18. Q **If competition is working, what new services does ITI provide?**

A One of our most popular services is multilingual operators. Foreign trade groups are beginning to specify hotels that subscribe to ITI. Our emergency service software is state of the art. We collect hotel call surcharges for the hotels. We allow hospitals to have operator service 24 hours per day from bedside without keeping their switchboards open and without the calls being billed to the room. We allow callers multiple billing options through several major credit cards and discount the calls because we save money through the alternate billing arrangements. We provide the operators to open new areas to telephone service such as interstate buses and marine traffic. We are introducing message forwarding and are investigating services for the deaf. We have a new international calling service, where Americans traveling abroad can immediately access English speaking (or any of our 18 languages) operators.

19. Q **Do you have any evidence that competition is working?**

A Hotels are being selected because of our multilingual operators, and AT&T has begun to offer Spanish speaking operators for the first time. ITI has captured a major market share of the COCOT industry. ITI has begun to market its operator service software through Northern Telecom. AT&T appears to be testing the branding of calls (or identifying the operator service provider) at both ends -- a system introduced by ITI. AT&T and GTE now accept some major credit cards. And, in perhaps the most telling example, AT&T has begun to offer commissions again to selective high volume chain hotels.

20. Q **What future benefits of competition do you foresee?**

A We have already seen dramatic price decreases in just the past few months, and will likely see more. The commissions paid to Bell payphone site owners after equal access will be greater, and in fact, will exist in the first place, because of competition.

The number of new services will explode and be limited only by the imagination of the competitors. Teletype translation and relay service for the deaf is a good example. With several million deaf people, if one operator service company offers it, any company that wants to be a major industry force will have to follow. Message forwarding is another example of a service several competitors are racing to bring to the market.

Revenue paid to governments for long distance traffic generated from phones on public property is another example of a future benefit of competition.

21. Q **What will be the impact on consumers?**

A Market disruption and competitive changes can cause confusion and frustration in the short run. That is a side effect of new options, new products, new prices, and new relationships. The same was true when the customer premises equipment market exploded; the same was true during equal access; the same was true with private pay phones.

I am sure there is a piece of each of us that longs for the stability and predictability before the breakup. But, consumers will educate themselves and will make informed choices. If we protect the freedom to choose then competition will discipline the marketplace. Without this competition we will never reach the full potential of the information age.

22. Q **Would you briefly summarize your testimony?**

A I believe the view expressed by the Public Counsel's Office that competitive operator service providers should be banned in Missouri for not being in the public interest is an unmeasured and not a very thoughtful response to this new stage of development in competitive telecommunications.

Instead, I suggest an approach similar in many ways to that advocated by Public Service Commission Staff. Regulators should be alert to the problems that each new phase of increasing and evolving competition may bring and should move to see the public is protected. But regulators should not go so far as to kill the operator service industry in Missouri or to place requirements on the industry that is not required of its competition.

If the only impact of ITI's participation in the marketplace was the introduction of new emergency software and procedures, creating a new industry standard for other companies to meet or exceed, then ITI participation would have been in the public interest.

23. Q Does this conclude your testimony?

A Yes it does.

Attachment A

BIOGRAPHICAL SKETCH OF DENNIS THOMAS, Ph.D.

Dennis Thomas currently consults in the area of strategic management and public affairs, and has associated with the law firm of Bickerstaff, Heath & Smiley in Austin, Texas. He is a member of the Board of Directors and a consultant to International Telecharge, Inc.

Thomas previously served as Chairman and Commissioner of the Public Utility Commission of Texas for nearly four years, the agency responsible for regulation of rates and services for the electric and telephone industries in Texas. Prior to his appointment to the Public Utility Commission in 1984, Dennis Thomas served as Deputy Executive Assistant to then Governor Mark White. In that role, he was responsible for state planning, the executive branch budget for state government, and federal issues requiring the Governor's attention.

Thomas has a Ph.D. in Management, an M.A. in Public Administration and a B.B.A. in Finance, all from the University of Texas at Austin.

Thomas has served on the staff of three Texas governors going back to 1970, including Governors Briscoe and Smith in addition to Governor White. He joined the White Administration as Director of the Office of Management and Budget. He was also Associate Director of the Texas Office of State-Federal Relations in Washington, D.C. for the four years, and was a Principal and Senior Vice President of PLANERGY, Inc., an energy planning and management consulting firm for four years. He has taught at the LBJ School of Public Affairs and the Graduate School of Business at The University of Texas.

Attachment B

ITI
INTERNATIONAL TELECHARGE, INC.

August 12, 1988

Mr. Robert E. Allen
Chairman of the Board
AT&T
550 Madison Avenue
New York, New York 10022

Dear Mr. Allen:

Recently, your company has sent the attached letter to AT&T cardholders, encouraging them to request an AT&T operator even when you do not serve the telephone. We are concerned about the purpose of the letter and certain of its representations. However, I also am concerned that customers who follow your advice will be frustrated or inconvenienced or both. ITI would like to work with AT&T to prevent that possibility.

While ITI will remain a strong competitor of yours both in price and through innovative services and will therefore have differences with AT&T, if a customer requests AT&T, we want to satisfy that request with the least inconvenience to the customer. We have the same desire when a caller asks for MCI, Sprint, or any other interexchange carrier. However, there is a problem to solve before we can achieve this mutual goal.

The problem is that AT&T does not provide callers a workable mechanism to reach AT&T from phones which are not served by AT&T. Specifically, AT&T, unlike other carriers, does not provide its customers a universal form of access such as a 1-800 number[1] which can be dialed to reach AT&T from lines which are presubscribed or routed via an automatic dialer to other carriers.

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[1] AT&T does enable 10288 access in equal access end offices, but this is not a workable universal alternative, as hotel and private pay phone accounts generally must block 10XXX access to alternate carriers to prevent fraudulent billing to their lines. A 950 number could also be offered by AT&T, but as 950 access is blocked from certain telephone instruments (although fewer than block 10XXX access) a 1-800 number would also be required to assure universal access.

G. RAY MILLER, CHAIRMAN OF THE BOARD
102 SOUTH AKARD, DALLAS, TEXAS 75202 (214) 744-0240

AT&T is the only major carrier without universal 1-800 access. Both MCI and US Sprint have established nationwide 1-800 access to their operators, and ITI can readily accommodate caller requests for access to those carriers by referring callers to their 1-800 numbers. If you will establish such alternate access, we will have our operators explain to those callers who desire AT&T how to access your network by making a toll free call. This will address the frustration and complaints caused by the procedure suggested in your letter. We therefore urge that AT&T provide alternate 1-800 access as soon as possible.

This is not the first occasion when we have tried to work with AT&T to aid it in finding some means of universal access. AT&T has already considered and rejected alternative proposals from ITI which would make it unnecessary for callers to hang up and redial an alternate access number. Specifically,

- We were recently advised by Robert Warren in AT&T's External Affairs organization that AT&T cannot technically accept the correct originating number from carriers transferring calls to AT&T from their switches; thus such transfers would lead to callers being incorrectly billed by AT&T as having originated their calls from the carrier's switch, an outcome which could lead to an even greater level of customer confusion and complaints.

- We were advised in 1987 by Gerald Hines in AT&T's Card organization that AT&T would not allow alternative carriers to process the AT&T Card even if all such calls were routed on AT&T facilities and billed at AT&T rates. We regret your continuing refusal to permit us to process the AT&T Calling Card.

There can be no question as to the feasibility of AT&T providing alternate 1-800 access to its operator services system, however. Many other carriers with lesser resources and technical capabilities have such access in place today.

Consumers deserve freedom of choice. AT&T must act to provide callers a workable means of reaching it from telephones served by other carriers. ITI believes we can compete with AT&T both on price and on service. But, frustrated or confused callers are not good business for either of us. We look forward to your thoughts.

Sincerely,

G. Ray Miller

Attachment

cc: FCC
State Commissions
Industry Participants
Robert Warren - AT&T External Affairs
Gerald Hines - AT&T Card Services
Paul Gamberg - OSPA

Gerald A. Hines
AT&T Card Services Director

295 North Maple Avenue
Basking Ridge, NJ 07920

Dear :

Because you're a valued AT&T Cardholder, I'm writing you about an important matter.

Recently, a number of hotels, hospitals, colleges and private pay phone companies have chosen firms other than AT&T to provide long distance operator and calling card services to their customers. As a result, from these locations, it could mean you'll pay higher prices for what you believe are AT&T calls.

We believe it's important for our customers to be careful when making operator assisted or AT&T Card or AT&T CALL ME Card calls from any of these locations because not all of these "alternative operator services" readily identify themselves. Even though you think you're using your AT&T Card or AT&T CALL ME Card to place AT&T calls, you could be using one of the alternative operator services. If this happens, your call will not be handled or billed by AT&T.

Here's a course of action you can follow to reach your choice of AT&T when placing calls away from home or office:

- When checking into a hotel, ask if AT&T is used for operator and AT&T Card calls. If not, ask how the hotel operator can connect you to AT&T for "dial 0" calls. When you do reach an operator verify you're speaking with AT&T.
- When dialing long distance Card calls yourself, always listen for the "Thank You for using AT&T" message after you've entered your AT&T Card number. If you don't hear it, chances are you've not reached AT&T. Immediately, hang up and redial the call -- without entering your Card number -- and wait for the operator to answer. AT&T operators identify themselves when answering. If you have any doubts, ask what company the operator represents. If it's not an AT&T operator, ask how you can be connected to one.
- When using your AT&T Card from a rotary-dial phone, follow the same procedure. Before giving your Card number to the operator, be sure you've reached AT&T.

As you know, the AT&T Card is your key to the quality and reliability of the AT&T network. And we want to do all we can to ensure our AT&T Cardholders receive the very best service and value. If you have any questions, please call us at 1-800-222-0300.

Sincerely,

Gerald A. Hines