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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

June 24, 1997
Jefferson City, Missouri
Volume 4

In the Matter of an Investigation into the)
Provision of Community Optional Calling) Case No.
Service in Missouri.) TW-97-333

DALE H. ROBERTS, Presiding
CHIEF ADMINISTRATIVE LAW JUDGE

KARL ZOBRIST, CHAIRMAN,
M. DIANNE DRAINER,
HAROLD CRUMPTON,
SHEILA LUMPE,
CONNIE MURRAY,
COMMISSIONERS.

REPORTED BY:
ASSOCIATED COURT REPORTERS, INC.

1 P R O C E E D I N G S

2 (EXHIBIT NO. 36 WAS MARKED FOR
3 IDENTIFICATION.)

4 ALJ ROBERTS: Good morning, ladies and
5 gentlemen. We're on the record for Tuesday morning, the
6 session in TW-97-333. At the end of the day yesterday and
7 then again this morning while we were off the record I
8 received a request from counsel for GTE regarding the
9 necessity for Mr. Stroo to depart after the end of today's
10 hearing, and the request is so that his -- someone from his
11 company, one of the representatives, can sit in on his
12 behalf. What's the name of that person?

13 MR. STROO: Gerald Shannon. He's a member
14 of our external affairs department, and he has been
15 involved in COS from the beginning. He's one of the
16 veterans.

17 ALJ ROBERTS: Gerald Shannon? Is that what
18 you said?

19 MR. STROO: Yes.

20 ALJ ROBERTS: All right. As I indicated
21 off the record, this is the TW docket, and that's
22 acceptable. So if we go past the end of today, you can
23 have that individual sit in in your place.

24 And also while we were off the record
25 Mr. England provided an exhibit which is No. 36. This

1 should provide information which was requested from the
2 bench yesterday. We had anticipated this might be an HC
3 exhibit, but Mr. England has indicated this is
4 non-proprietary. I believe copies are on the bench and
5 three copies to the court reporter, and I believe the other
6 parties here have received their copy.

7 Is there any objection to the admission of
8 Exhibit No. 36?

9 (No response.)

10 ALJ ROBERTS: Hearing none, that will be
11 admitted.

12 (EXHIBIT NO. 36 WAS RECEIVED IN EVIDENCE.)

13 ALJ ROBERTS: Is there anything else that
14 we need to take up? I'll note for the record that we'll
15 probably try and break sometime around ten o'clock for the
16 morning break and also to allow some time for the
17 Commission's agenda meeting. With that, then I believe we
18 finished with the first witness yesterday, Mr. Jones. Is
19 Mr. Godfrey available?

20 MR. JOHNSON: Yes, your Honor.

21 ALJ ROBERTS: All right. I'd like you to
22 call Mr. Godfrey up here, and we'll go off the record,
23 please.

24 (Witness sworn.)

25 _____

1 ALJ ROBERTS: Mr. Godfrey is on the stand.
2 You may proceed, Mr. Johnson.
3 MR. JOHNSON: Thank you, your Honor.
4 GARY GODFREY testified as follows:
5 DIRECT EXAMINATION MR. JOHNSON:
6 Q. Would you state your name and give us your
7 business address, please?
8 A. My name is Gary Godfrey, 718 South West
9 Street in Green City, Missouri 63545.
10 Q. Who do you work for, Mr. Godfrey?
11 A. I work for Northeast Missouri Rural
12 Telephone Company.
13 Q. Have long have you worked for them?
14 A. Since November of 1984.
15 Q. Are you the same Gary Godfrey that's caused
16 to be prefiled in this case surrebuttal testimony which has
17 been designated as Exhibit No. 5?
18 A. Yes.
19 Q. Mr. Godfrey, if I were to ask you the same
20 questions as are contained on Exhibit No. 5, would your
21 answers be the same?
22 A. Yes.
23 MR. JOHNSON: I would offer the Exhibit
24 No. 5 into evidence, your Honor, and tender the witness for
25 cross-examination.

1 ALJ ROBERTS: Any objection to the
2 admission of Exhibit No. 5?

3 (No response.)

4 ALJ ROBERTS: Hearing none, that will be
5 admitted.

6 (EXHIBIT NO. 5 WAS RECEIVED IN EVIDENCE.)

7 ALJ ROBERTS: And the witness goes first to
8 the Small Telephone Group.

9 MR. ENGLAND: No questions, your Honor.

10 ALJ ROBERTS: Public Counsel?

11 MR. DANDINO: No questions, your Honor.

12 ALJ ROBERTS: TCG?

13 MS. FORREST: No questions.

14 ALJ ROBERTS: AT&T?

15 MR. DEFORD: No questions, your Honor.

16 ALJ ROBERTS: MCI?

17 MR. CURTIS: No questions.

18 ALJ ROBERTS: GTE?

19 MR. STROO: No questions.

20 ALJ ROBERTS: CompTel?

21 MR. ANGSTEAD: No questions.

22 ALJ ROBERTS: Southwestern Bell?

23 MR. LANE: Questions.

24 ALJ ROBERTS: Yes, Mr. Lane?

25 CROSS-EXAMINATION BY MR. LANE:

1 Q. Mr. Godfrey, I want to talk a little bit
2 about the provision of internet service. Who is the
3 provider of the internet service that you refer to in your
4 testimony? Is it the Northeast Missouri Rural, or is it
5 RAIN?

6 A. Northeast Missouri Rural provides the
7 service as a deregulated element.

8 Q. And what involvement does RAIN have in the
9 provision of the service?

10 A. I guess I would refer to RAIN as a
11 wholesaler. They negotiate for the connection to the
12 internet. They acquire the circuits to get to the POP,
13 UUNET POP currently. They buy the servers and hub router
14 and some of the essential equipment for the backbone, and
15 then we purchase -- or they distribute their cost to us,
16 and then we actually take on the new customers and charge
17 them.

18 Q. Okay. And you then, Northeast Missouri
19 Rural, bills the customer for the internet service that's
20 being provided, the cost from the customer?

21 A. Yes. And report that revenue as
22 deregulated and the expenses also.

23 Q. And when you utilize COS service to provide
24 internet access to customers, is that purchased then by
25 Northeast Missouri Rural?

1 A. Yes. And accounted for as deregulated.

2 Q. And do you -- in the reports that you
3 submit to Southwestern Bell to establish orders, do you
4 have the listed name as being RAIN internet access?

5 A. I would have to check that. We may have it
6 that way just to determine that that is, you know -- that
7 it's internet service, but it's paid for by Northeast
8 Missouri Rural Telephone by the deregulated side of the
9 business.

10 Q. Let me just show you an example.

11 MR. LANE: If I may approach the witness.

12 ALJ ROBERTS: Yes.

13 BY MR. LANE:

14 Q. Show you a copy of an order, Mr. Godfrey,
15 that was submitted to Southwestern Bell and ask if this
16 refreshes your recollection as to who the billing name is
17 and who the listed name is on COS orders for internet
18 access.

19 A. Yeah. As it says, RAIN, in care of
20 Northeast Missouri Rural Telephone Company. This bill --
21 RAIN never pays this bill. Northeast Missouri Rural
22 Telephone pays it.

23 Q. But the billing name is listed as Northeast
24 Missouri Rural. Correct?

25 A. That -- yes.

1 Q. And then the listed name for the service is

2 RAIN. Is that correct?

3 A. That's correct.

4 Q. But RAIN in your view doesn't -- not truly
5 the listed name on that service?

6 A. Well, we actually charge the customers. We
7 pay the expenses after RAIN gets the network to us, so we
8 consider them our customer.

9 Q. And the only revenue that RAIN takes in
10 then is revenue to cover the costs of the servers and so
11 forth that they have to use to access the internet?

12 A. What -- the servers and the circuits and
13 the POP and some of the hub equipment, and they provide one
14 router to each of the member companies. For example, they
15 distributed almost \$8,000 worth of costs to us last month
16 for our 500 customers.

17 Q. And so the way it's set up, RAIN will
18 charge all of its costs but nothing more than its costs.
19 Is that correct?

20 A. That's correct.

21 Q. Okay. And Northeast Missouri Rural in the
22 provision of internet access service, is that set up where
23 they may or may not make a profit, depending upon how the
24 business goes?

25 A. That would be correct. Currently they're

1 not making a profit on the deregulated side.

2 Q. When Northeast Missouri Rural provides
3 internet access to its own customers, meaning its customers
4 as a local exchange company, it does not use COS to do
5 that, does it?

6 A. No. I mean, the customer would subscribe
7 to COS. We have customers calling, they want COS, and we
8 sign them up for COS.

9 Q. The customers that are in Northeast
10 Missouri Rural's certificated territory that want your
11 internet access service, you don't utilize COS to provide
12 them internet access. Correct?

13 A. There is -- there's no other service in our
14 area serving internet, so I assume they could, if they were
15 trying to reach another internet provider, subscribe to
16 COS. I'm not sure I understood your question clearly.

17 Q. Yeah. Let me try again. Your offering of
18 internet access service to your customers of Northeast
19 Missouri Rural, they dial a local telephone number, don't
20 they, to reach the service?

21 A. Yes.

22 Q. Is that correct?

23 A. That's correct.

24 Q. They don't utilize COS to do that, do they?

25 A. No.

1 Q. Now, you don't -- your customers don't
2 actually access -- let's take an example of a route, Green
3 City to Kirksville.
4 A. Okay.
5 Q. You provide --
6 A. It's not Boonville; it's Kirksville.
7 That's nice.
8 (Laughter.)
9 BY MR. LANE:
10 Q. I'm going to try to get this right all day
11 today. That's one of the COS routes. Correct?
12 A. That's correct.
13 Q. You go from Green City to Kirksville?
14 A. Yes.
15 Q. And you utilize COS service to provide
16 internet access to Kirksville residents, do you not?
17 A. That's correct.
18 Q. Okay. Now, to provide the service in Green
19 City, you don't actually -- customers don't actually access
20 the internet there in Green City, do they?
21 A. Our Green City customers do, and that in
22 our mind is where the internet service terminates. I mean,
23 it -- they hit the modem pool; from then on it's internet.
24 Q. Well, let's carry it through, though. They
25 don't -- they get taken from Green City over to Pilot

1 Grove, don't they?

2 A. No. We have a server right there in Green
3 City. They access their Email. They access web pages. A
4 lot of cases they never go beyond that.

5 Q. And in cases where they go beyond that,
6 they go to Pilot Grove, don't they?

7 A. They might go to China. They go all over
8 the world.

9 Q. How many -- where do you have the servers
10 located then for service?

11 A. We have two servers, one in Pilot Grove and
12 one in Green City.

13 Q. And that's for all the RAIN companies.
14 Correct?

15 A. Yes. That's correct.

16 Q. And then other than Green City, anybody
17 else that wants to access the internet, they come into the
18 local exchange company, and then they get connected over
19 either to Green City or to Pilot Grove, don't they?

20 A. They would hit modems wherever the other
21 companies have their modem pools set up, and then they
22 would go to the servers that their company's assigned to.

23 Q. And you utilize -- you and the other
24 companies utilize private line services to take them from
25 the modem pools to the servers that are located in Green

1 City and in Pilot Grove. Correct?

2 A. That's correct.

3 Q. And you buy those from whoever the PTC is

4 providing private line services there, do you not?

5 A. Uh-huh. Actually, they're interstate

6 circuits, but the PTC in a lot of cases owns a part of

7 that. It has to go through their territory, so they get a

8 share of that revenue.

9 Q. Okay. It's interstate circuits, because

10 access to the internet is considered to be an internet

11 type -- interstate type service, is it not?

12 A. Yes. It's more than 10 percent interstate.

13 Q. Who pays for the private line connections

14 from the modem pool locations to the server locations?

15 A. The arrangement we have with RAIN is that

16 RAIN will bring a circuit, one circuit into each member

17 company's territory. They designate the location. And

18 then it's up to the companies to distribute however they

19 need to to set up modem pools in other locations or

20 whatever to serve the customers in their territories.

21 Q. So RAIN acquires the private line circuits

22 from the interstate provider and then bills the member

23 companies of RAIN for that?

24 A. As I understand it, RAIN, they are charged

25 for those circuits, for the backbone circuit, for the UUNET

1 circuit, and for that one circuit that extends to the
2 member company, and then they pay that. And then costs are
3 distributed, you know -- all the costs of RAIN are
4 distributed to the member companies.

5 Q. Now, in providing -- what are the places
6 where Northeast Missouri Rural provides service to
7 customers of other local exchange companies?

8 A. We provide service to Kirksville,
9 Lancaster, and Milan are outside of our territory. We have
10 some -- a few customers in Kahoka that access us over EAS.
11 We've had requests for months that they want us to open
12 that up and serve the whole town, that city council -- or
13 one of the city clerks has talked to us. The police
14 department and the -- some of the local community leaders
15 have begged us and sent us letters.

16 And we've been afraid to open that up too
17 much, because we were afraid we would bog down the EAS
18 circuit between our Luray exchange and Kahoka. But I think
19 we've -- I think GTE is going to put in a T1 there to beef
20 up the EAS. So I think we'll be able to extend it to
21 Kahoka in the future.

22 Q. Who is the local exchange company that
23 serves Kirksville, Lancaster, and Milan?

24 A. Milan is ALLTEL. Kirksville and Lancaster
25 are Southwestern Bell.

1 Q. And you're not required to use COS to serve
2 those customers and provide them internet access; there are
3 other services that are available to you to do that, are
4 there not?

5 A. Well, in Kirksville and Milan -- well, let
6 me give you an example. At Lancaster they petitioned us,
7 and especially the county assessor tried for months. He
8 was on a two-year stint trying to get internet service to
9 his exchange. And so he first contacted me early in '96
10 wanting to know if we would provide him internet.

11 I said, "Well, if you could get COS to pass
12 between our Queen City -- what will be our Queen City
13 exchange when we take over Modern, when we buy those
14 properties from GTE, we could probably get you service that
15 way." Because we didn't feel like we should go into
16 another territory. We didn't feel like it would be
17 profitable in any way to go into another territory and buy
18 the lines and pay the circuit and buy the router equipment
19 and buy all the modems for just a few customers. So we
20 told him we couldn't do that. But if he got COS, we could
21 serve him that way.

22 They petitioned for COS. They went through
23 the studies, and it failed. They came back to us and
24 wanted that service, so in Lancaster's case our board voted
25 to go ahead and extend that service. We did buy lines off

1 Southwestern Bell. We bought the circuit off Bell. We
2 bought the modems, routers, spent a lot of money to serve
3 thirty people in Lancaster.

4 Q. I may not have asked my question artfully.
5 I was trying to understand what choices you had to get the
6 customers from, let's say, Kirksville over to Green City
7 where your servers are besides COS. What other services
8 could you utilize to do that other than COS?

9 A. We really thought for us the only
10 alternative that was viable was to do what we did in
11 Lancaster. Go in there, extend the circuit in there, lease
12 the circuit, pay for the lines.

13 Q. You could put a private line circuit
14 between the two --

15 A. We bought a 56K data circuit off of
16 Southwestern Bell to go into their territory, and we bought
17 eight business lines. The local electric cooperative
18 volunteered to let us put their routers and modems in their
19 building free of charge, because they wanted to see service
20 in that exchange.

21 Q. You could also utilize 800 service after
22 customers reach your location in Green City, could you not?

23 A. That too would be cost prohibitive. We
24 have a service we provide, \$25 unlimited. You know, the
25 cost of an 800 number wouldn't nearly cover that. We just

1 didn't feel like we could do it with an 800 number.

2 Q. You thought the other alternative was too
3 expensive and that COS would be a cheaper way for you to be
4 able to do it. Right?

5 A. It was the only way we felt we could get
6 the service to the customers at a reasonable rate.

7 Q. Now, when you provide internet access
8 service to Southwestern Bell customers in the Kirksville
9 exchange through COS, Southwestern Bell gets the revenue
10 for COS. Correct?

11 A. That's correct. And in that case, you
12 know, we -- even though we don't need that many modems to
13 serve Kirksville, they have access to modems in Novinger
14 and Green City, which is, I believe, forty modems. So
15 we're paying a business rate on forty modems.

16 Q. And the business rate for COS is \$33.50?

17 A. I believe that's correct.

18 Q. Is that right?

19 A. I believe that's right.

20 Q. And the residential rate is \$16. Is that
21 right?

22 A. I think that's right.

23 Q. And Southwestern Bell then pays access
24 charges to your company, Northeast Missouri, in connection
25 with COS calls, do they not?

1 A. On what you just described there,
2 Kirksville to Green City and Kirksville to Novinger, we,
3 like the other companies, run a T to O ratio for
4 terminating. So there was no access generated there.

5 Q. Okay. You receive access on terminating
6 calls based on the number of originating minutes that you
7 have. Correct?

8 A. Correct.

9 Q. And at this point in time you're operating
10 under a T/O ratio. Correct?

11 A. That's correct.

12 Q. And you may choose at some point to move in
13 the future to actual measured minutes. Isn't that correct?

14 A. Yes.

15 Q. Okay. Or you may choose to adjust your T/O
16 ratio based on the actual changes that take place in the
17 terminating to originating traffic. Correct?

18 A. I don't believe ours have changed since
19 1986.

20 Q. Okay. My question, though, is, they may
21 change at some point in the future if you do another
22 study. Isn't that correct?

23 A. We've talked with Bell, like you heard
24 yesterday, about changing T to O ratios, and as I recall
25 the discussions, they wanted all small companies to convert

1 at once; they didn't want piece meal, just the ones that
2 thought they would benefit to go and others not. So it was
3 all or nothing. I don't know that there's any change in
4 that.

5 Q. If you get to the point where you
6 measure -- or if you do change your T/O ratio, then at that
7 point Southwestern Bell would be paying you access
8 reflective of the increased calls between Kirksville and
9 Green City as a result of providing internet access through
10 COS. Correct?

11 A. If they were paying for actual terminating,
12 those would be terminating calls.

13 Q. And you're aware, are you not, that
14 Northeast Missouri Rural has, I believe, the highest
15 intraLATA access rates in the state of Missouri?

16 A. I know they're one of the highest. I
17 didn't know they were the highest.

18 Q. And on both ends of the call it comes out
19 to about 33 cents a minute. Isn't that correct?

20 A. I believe you're talking before the cap.

21 Q. Correct.

22 A. If you look at the cap, it's extremely
23 discounted up to the cap.

24 Q. Up to the cap, both ends, 33 cents sound
25 about right?

1 A. I'd have to look. I'll take your word for
2 it.

3 Q. And the terminating end only is a little
4 bit higher than originating, isn't it, for your tariff --

5 A. That's correct.

6 Q. So it may be around 20 cents a minute?

7 A. There again, I'll take your word for it.

8 Q. Well, assume it's around 20 cents a
9 minute. If you have a customer in Kirksville on the
10 internet that uses the service, let's say, 35 minutes a
11 day, that would work out to about a thousand minutes in a
12 month, would it not?

13 A. There again, if you're using the before cap
14 rate, this would all be after cap, because, you know, we've
15 been above the cap since the year it was established.

16 Q. All right. If they use it about 35 minutes
17 a day, that would be about a thousand minutes a month. Is
18 that correct?

19 A. I can't do math that quick, but I'll take
20 your word for it.

21 Q. Okay. And at 20 cents a minute if it's
22 pre-cap, that works out to about \$200 a month, doesn't it?

23 A. Probably. I don't know.

24 Q. Compared to the COS revenue of \$33.50.

25 Right?

1 A. That would be right. But as you said,
2 they're currently not getting terminating, and I suppose we
3 would have to have approval to change.

4 Q. There's no question that there's some level
5 of internet use by customers in Kirksville that would cause
6 Southwestern Bell to pay more in access to Northeast
7 Missouri Rural than it would collect from COS. Correct?

8 A. I would -- I would think that probably all
9 COS would be like that.

10 Q. All COS, the revenue is exceeded by the
11 cost for access?

12 A. I would think that a customer, in making a
13 choice, would not take the service unless he had more than
14 \$33 worth of toll calls or was getting the benefit from
15 receiving terminating calls.

16 Q. No. I was trying to draw the comparison
17 between the access revenue that Southwestern Bell would
18 have to pay and the revenue that Southwestern Bell receives
19 as opposed to what the customer pays. There's some point
20 in there, obviously --

21 A. Sure.

22 Q. -- that Southwestern Bell pays more in
23 access than it receives on the COS side?

24 A. Sure.

25 Q. If the Commission decides to make secondary

1 carriers like your company the providers of COS, then --
2 and require them to pay access to originating or
3 terminating calls in other companies' territories, you
4 would be in the position then of paying Southwestern Bell
5 originating access for Kirksville customers that call into
6 Green City via COS access to the internet. Correct?
7 A. I assume so. But what we would do, we'll
8 look at the lowest cost alternative, and if we can't
9 provide the service that way, we would have to look at some
10 other way to provide it or hope we could. We wouldn't want
11 to abandon those customers.
12 Q. Are you indicating that you might not
13 provide service to Kirksville customers, because you'd have
14 to pay out more in access to Southwestern Bell than you'd
15 be taking in for the internet access service?
16 A. Well, my point was if the rates that we
17 would have to pay -- you know, if the cost exceeded some
18 other alternative of providing that, we would look for
19 another way of providing it. I, again, may not have
20 understood the point of your question.
21 Q. Let me try again. If you were the COS
22 provider and you provided service to Southwestern Bell --
23 internet service to Southwestern Bell customers in
24 Kirksville, you would be paying Southwestern Bell access
25 charges to take in those customers. Correct?

1 A. I suppose under the scenario that you've
2 drawn that would be true, but I would certainly hope that
3 doesn't come to pass.

4 Q. And would you continue to provide internet
5 service to Southwestern Bell's Kirksville customers if you
6 were the one providing the COS and paying the access
7 charges?

8 A. There again, which was the point I was
9 trying to make, we intend to serve those customers. We
10 intend to serve our communities and the customers that
11 we've taken on in Southwestern Bell's communities. And
12 we'll look for the lowest cost way of doing that so we can
13 keep the rates reasonable, and it may be that COS becomes
14 so expensive that we have to go in and put a dedicated
15 circuit into that town and buy the equipment and do that.
16 It may be that we have to raise the rates to provide that
17 service, but we don't intend to abandon our customers.

18 Q. Would you agree with me, Mr. Godfrey, that
19 when the Commission established COS, that it was not
20 designed for internet access calling?

21 A. I was there when we were talking about COS,
22 and I never heard internet mentioned either inside that
23 room or anywhere else. We didn't know anything about
24 internet. As far as I knew, it didn't exist at that time.

25 Q. The COS service was designed to permit

1 customers that lived in a petitioning exchange call into
2 the target exchange or to receive calls from target
3 exchange customers where there was a community of interest
4 between the two. Correct?

5 A. That's correct.

6 Q. And in the case of internet conversations
7 that are taking place ultimately aren't between customers
8 in Kirksville and Green City but Kirksville and China or
9 someplace in the rest of the world. Isn't that correct?

10 A. Not conversations, but data communications,
11 except, like I said before, we do have a server there in
12 Green City, and they may not go any further than that. The
13 modem pool is there. The server is there. They check
14 their Email there on that route you're talking about.

15 Q. But anything that goes beyond that, beyond
16 the server that you have there, you're going to have data
17 communications with the rest of the world. Correct?

18 A. That's what the internet does. Yes.

19 Q. Right. And it doesn't really further the
20 community of interest between Green City and Kirksville
21 when conversations are taking place between Kirksville
22 customers and the rest of the world or data transmissions,
23 I'll say?

24 A. Well, in our mind the communication was to
25 the modem pool. That was what we purchased, was service to

1 that modem pool.

2 Q. Let me ask it again. When data
3 transmissions were taking place between a customer in
4 Kirksville and someone in China, that's not furthering any
5 community of interest between Green City and Kirksville, is
6 it?

7 A. My view of the community of interest was
8 we, as the internet provider, was a business in Green City,
9 and we were providing a service to those customers in
10 Kirksville and were allowed to call us back and make
11 terminating calls. It was an internet business, so the
12 calls then went out to the rest of the world. But we were
13 the business in Green City providing service, so our
14 community of interest as that business in Green City was
15 Kirksville.

16 Q. Even though no conversations are taking
17 place between your company and the customer in Kirksville?

18 A. In those cases where they were receiving
19 their Email, yes, but I mean, that's the nature of
20 internet. Every internet company sets up lines somewhere,
21 and you have to access the modem. And then they go to the
22 world.

23 Q. Sure. That's the nature of the internet.
24 But we're trying to discuss whether there's a community of
25 interest between Green City and Kirksville that's being

1 furthered by utilizing COS, and you don't see the
2 distinction?

3 A. Well, our argument was we were the business
4 in Green City providing service to customers in Kirksville,
5 and that was the community of interest.

6 Q. Okay. Now, on page 8 and 9 of your
7 surrebuttal testimony, you say that you openly discuss the
8 use of COS to provide internet with Southwestern Bell well
9 in advance. Do you recall that?

10 A. I don't remember the last phrase you put on
11 there, but yes. I remember that part of the testimony.
12 Page 9 you said?

13 Q. Bottom of page 8 and the top of page 9.

14 A. Okay.

15 Q. Do you see that?

16 A. Yes.

17 Q. Now, you're aware, are you not, that Rich
18 Taylor is the Southwestern Bell representative that's in
19 charge of Southwestern Bell's relationships with
20 independent telephone companies like yours?

21 A. Yes.

22 Q. And that he has responsibility and
23 oversight for the primary toll carrier plan for
24 Southwestern Bell?

25 A. Yes.

1 Q. You've had many discussions with him about
2 PTC and other issues that come up between our two
3 companies, have you not?

4 A. We don't just call him and ask him
5 questions about it, but in scheduled meetings or when we're
6 together or something like that, yes.

7 Q. You know who he is --

8 A. Oh, yes. Certainly.

9 Q. -- and what his responsibilities are, don't
10 you?

11 A. Yes.

12 Q. And you never discussed with Mr. Taylor the
13 use of COS to provide internet access to Southwestern Bell
14 customers, did you?

15 A. No.

16 Q. And did you ever discuss that in advance
17 with any persons in Southwestern Bell's rate shop that's in
18 charge of administering those tariffs?

19 A. I personally did not, and one reason I did
20 not, we -- it never occurred to us that there was any
21 problem. Some of our switch guys reported to me that they
22 had had conversations with Elmer Weiss about alternative
23 ways to provide service other than using COS. And other
24 companies have reported to me that they had similar
25 discussions with Elmer when traffic had rose on the

1 terminating side, and they explained to him that that was
2 because they introduced internet in those exchanges.

3 It never occurred to me that there was a
4 problem. I didn't think it was something we should check
5 with them. I thought we were providing a valuable service
6 to the customers.

7 Q. It's fair to say, isn't it, Mr. Godfrey,
8 that you never had any detailed discussion with any
9 Southwestern Bell employees about the use of COS to provide
10 internet access to Southwestern Bell's customers?

11 A. No. That's not true. We also have a
12 customer in Kirksville that's been there for over a year
13 that is a Southwestern Bell employee.

14 Q. Okay. Other than the Southwestern Bell
15 employee in Kirksville, it's fair to say that you didn't
16 have any detailed discussions with anybody from
17 Southwestern Bell regarding the use of COS to provide
18 internet access. Right?

19 A. Well, that would be fair to say, because we
20 didn't think there was any problem. But I want to go on to
21 say that, you know, Missouri Express had public meetings in
22 the town of Kirksville, that the local telephone companies
23 were there, the city was there. The University Extension
24 was there. MORENET put on the meeting. We discussed our
25 use of COS in that public meeting.

1 We had over 200 customers in Kirksville,
2 and each one of them was sent out a letter saying you will
3 access this service by calling the COS number. Those 200
4 customers have high volumes of calls that your billing
5 department rakes off of your bills each month. I can't
6 imagine that Bell didn't know.

7 Q. The Southwestern Bell employee in
8 Kirksville that subscribes to your service, is that person
9 somebody that has the responsibility to oversee and
10 administer the COS tariff at Southwestern Bell?

11 A. I don't know his job title, but I would
12 very much doubt it. I believe we works in the central
13 office, I believe, in Kirksville.

14 Q. And as the secondary carrier to
15 Southwestern Bell, it's your responsibility, is it not, to
16 understand and to administer Southwestern Bell's tariffs
17 for your customers?

18 A. That's correct.

19 Q. And so if you do have questions about it or
20 interpreting it, you need to -- you know that you need to
21 take those to Southwestern Bell, don't you?

22 A. We -- if -- yes, we do. Although each year
23 you send your review staff to our facility. We discuss
24 items with them. We go answer any questions they have. We
25 open our books. They view our bills, and there's

1 oftentimes that we make adjustments based on things that
2 maybe we misinterpreted.

3 Q. Sure. Now, you read the Southwestern
4 Bell's tariff before you started to provide the internet
5 access, didn't you? Had meetings and discussed it with the
6 other RAIN companies, didn't you?

7 A. No. It wasn't quite like that. We sort
8 of -- we saw a need in some of the exchanges where we could
9 reach by use of COS. So we started putting on a few
10 customers and saw that the demand was going to grow, so we
11 started offering COS.

12 Q. Well, let me refer you to page 9 of your
13 surrebuttal testimony, the third question that's on that
14 page.

15 "QUESTION: Did you review Southwestern
16 Bell's tariffs before making this use of COS?

17 "ANSWER: Yes."

18 A. The point I was trying to make -- I think
19 you said when we started providing that service. I think
20 we started providing it first, and then we kind of
21 discussed. And we knew other companies were doing it. We
22 also knew that COIN, one of the oldest community
23 information networks in the state of Missouri, was using
24 COS to allow internet access for their customers.

25 We discussed it. My biggest concern was

1 whether we needed to pay on every line in the modem pool or
2 just on one. And we interpreted the tariff in different
3 ways at different times. There was a point when we weren't
4 charging the rate on all the lines in the modem pool,
5 because the tariff language as I interpreted it said
6 combined billing. Since the calls were coming in
7 terminating, you know, you weren't combining outgoing calls
8 in the bill. So I didn't think the hunt group distinction
9 maybe meant that we needed to charge COS on every line in
10 the modem pool. Of course, we were trying to keep our
11 costs as low as possible so we could offer the service as
12 low as possible.

13 But when Southwestern Bell sent us data
14 requests and started talking about that, we went back and
15 reviewed all those charges, and we retroactively paid
16 anything in the modem pool we hadn't paid COS on.

17 Q. Let's clarify a little bit what we're
18 talking about here. How many COS lines did you have from
19 Green City to Kirksville?

20 A. It grew as time went on. It's up to 24
21 currently, but that was in stages. It started out with
22 just -- on a trial basis in late '95 or early '96.

23 Q. And you were paying on just one COS charge
24 to Southwestern Bell for all 24 of those lines. Is that
25 correct?

1 A. It started in increments. We first had
2 four modems, and we paid COS on all four of those lines.
3 That went on for a few months. Then I think we grew it to
4 eight. And we reviewed the tariff again, and we thought
5 the combined billing language meant since they were
6 terminating calls, we wouldn't have to charge it on every
7 one.

8 So we started charging on just one for a
9 period of time, and then, like I said, we realized later
10 that there was a concern with Southwestern Bell. So we
11 discussed it, and we retroactively charged for every line
12 that was in service during the months they were in service
13 and made that adjustment and paid Bell for that service.

14 Q. And did you discuss whether you needed to
15 pay for all the lines with the other RAIN companies?

16 A. Especially after I saw that Southwestern
17 Bell data request, I talked to some of the other companies
18 to see how they were doing it to make sure, you know, that
19 we were interpreting the tariff right.

20 Q. And before Southwestern Bell brought it to
21 your attention in April of this year when the COS docket
22 was under way, for the year and a half prior to that you
23 didn't discuss with Southwestern Bell whether you should be
24 paying it on the all the lines, did you?

25 A. No, I didn't.

1 Q. And did you review the tariff?

2 A. Yes. We looked at the language, and as I

3 recall, it said combined bill. And that was a gray area in

4 our mind that we -- that's the sort of thing we discuss

5 with your review team when they come out.

6 MR. LANE: May I approach the witness?

7 ALJ ROBERTS: Yes.

8 BY MR. LANE:

9 Q. Let me show you a copy of -- it's

10 Schedule 9-1 and 9-2 to the rebuttal testimony of Debbie

11 Bourneuf, which is copies of our COS tariff that are also

12 part of the public record of the Commission, and ask you to

13 refer to those for a moment.

14 A. I can tell you ahead of time --

15 Q. Let me ask the question first,

16 Mr. Godfrey. Okay?

17 A. Okay.

18 Q. Condition No. 5 says that COS is offered on

19 a per line basis, does it not?

20 A. Unless otherwise specified in these

21 conditions, COS is offered to all classes and grades of

22 residents and business customers located in a COS

23 qualifying exchange on a per line basis.

24 Q. And if you look over on condition 11A, it

25 says that the monthly rates apply on a per line basis?

1 A. I'm going to agree with you. We paid the
2 COS rates. We did it retroactively, but we paid them.

3 Q. And that's -- you agree that you're
4 required to do that?

5 A. I agree that the tariff is vague, but we
6 didn't want -- we didn't feel we were in a position to
7 defend not paying all the rates.

8 Q. All right.

9 A. So we did.

10 MR. LANE: I don't have any other
11 questions. Thank you.

12 ALJ ROBERTS: The witness goes next to
13 United.

14 MS. GARDNER: No questions.

15 ALJ ROBERTS: Staff?

16 MS. MCGOWAN: Okay. I have one question
17 that might be confidential. I'm not sure, because it's
18 about a number that's on a confidential data request. But
19 that number may not be confidential, so I'll save that for
20 last just in case.

21 ALJ ROBERTS: Well, I don't know that we
22 will go in-camera for this witness if it's not necessary.
23 If you can ask the question without revealing the number,
24 you can do it that way. If it's HC, we will go there.

25 CROSS-EXAMINATION BY MS. MCGOWAN:

1 Q. Is basically the number of internet
2 subscribers?

3 A. Pardon me?

4 Q. The number of internet subscribers your
5 company has, I don't know if that's a confidential number.

6 A. It's not -- we don't -- it doesn't bother
7 me to reveal that.

8 MR. JOHNSON: Go on.

9 BY MS. MCGOWAN:

10 Q. It was on a data request that had other
11 information --

12 A. Currently we have approximately 500.

13 Q. And you said you had eight COS lines?

14 A. In those routes that he was discussing --

15 Q. Oh, those routes?

16 A. -- we had forty in Novinger and Green City.

17 Q. And what is your internet access rate? I
18 mean, yeah, per month.

19 A. We charge \$10.95 per month for the first
20 15 hours of use, and it's 30 cents an hour beyond that up
21 to a maximum of \$25. So if they're --

22 Q. Okay.

23 A. If they would exceed -- if their usage
24 takes them to \$25, it caps there.

25 Q. Caps there. Okay. What is your rate for

1 local service?

2 A. For Northeast Missouri it's currently \$5
3 residential, 7 1/2 business.

4 Q. Yeah. That's -- you said that you provide
5 internet access and that RAIN, I believe, wholesale?

6 A. That's the way we consider it.

7 Q. So do they provide you with connection to
8 the backbone?

9 A. They negotiate with UUNET net for access to
10 the internet and for the backbone circuits to get to feed
11 to us.

12 Q. And when did you begin providing internet
13 service to --

14 A. We started providing it on kind of a test
15 basis in November of '95, and I think by the beginning of
16 the year '96 we had approximately 30 customers. Then it
17 grew after that.

18 Q. Do you know what company RAIN uses for
19 their backbone service?

20 A. Currently it's UUNET.

21 Q. Okay. Do you know how long they've used
22 UUNET?

23 A. Prior to that they used MORENET.

24 Q. Do you know when they made the change?

25 A. I believe around the first of the year they

1 had both, UUNET and MORENET. Within the last couple of
2 months they terminated MORENET service.

3 Q. So when you initially started receiving the
4 internet service through RAIN, you were probably -- you
5 were getting MORENET for your backbone?

6 A. Yes.

7 MS. MCGOWAN: I think that's all I have for
8 this witness. Thank you.

9 ALJ ROBERTS: Redirect after we do
10 questions from the bench. Commissioner Crumpton? I'm
11 sorry. Vice Chair Drainer? Excuse me. I already got the
12 signal from Commissioner Crumpton. Vice Chair Drainer?

13 COMMISSIONER DRAINER: Okay.

14 QUESTIONS BY COMMISSIONER DRAINER:

15 Q. Good morning, Mr. Godfrey.

16 A. Good morning.

17 Q. I just have a couple of questions. But
18 first, let me follow up on a question from a staff
19 attorney. You said you have 500 internet customers?

20 A. Approximately.

21 Q. They're not all COS customers, are they?

22 A. Oh, no.

23 Q. Do you know how many of them are COS
24 customers?

25 A. Kirksville would be approximately 200, a

1 little over 200, maybe even as much as 250. So maybe half
2 the customers come from Kirksville, and they're COS. So a
3 little over half.

4 Q. Half. Okay. I wanted a clarification on
5 some questions -- or some of your answers to Southwestern
6 Bell attorney Mr. Lane. Queen City --

7 A. Yes.

8 Q. -- is one of your exchanges now?

9 A. We purchased that -- the Modern
10 Telecommunications Company, which is a subsidiary of
11 Northeast Missouri Rural, purchased three exchanges from
12 GTE, and that was one of them.

13 Q. I see. And did I understand you to say
14 that there was a customer in Queen City that was wanting
15 internet?

16 A. Yes.

17 Q. And that you talked to them about a good
18 way of going about getting it was if they would petition
19 for COS?

20 A. That's right. In fact, I have a letter
21 from this customer that kind of explains that.

22 Q. Okay.

23 A. Could I read that?

24 Q. Sure. Please do.

25 A. Okay. It's from the county assessor in

1 Schuyler County, Lancaster, Missouri. It's sent to me.

2 It said, "In early 1995 several interested
3 citizens of Schuyler County began an attempt to acquire
4 internet access for the county. Several avenues were
5 explored. We began first by trying to get a local access
6 line installed by petitioning America Online. We were told
7 at the outset that we needed at least a hundred members
8 before any such move could even be considered. We secured
9 at least that many but never received any positive response
10 from America Online. This process spanned a period of
11 almost a year.

12 "At this point in time we then petitioned
13 the Schuyler County Commission to ask the Missouri Public
14 Service Commission to establish a COS line between the
15 city -- between every city in the county with Lancaster the
16 county seat." And that was at our request. We told them
17 that would be a good way not only for internet but for
18 other use in the county.

19 "This process was begun in the spring of
20 1996. The PSC requested such studies from Southwestern
21 Bell, Northeast Missouri Rural Telephone and Mark Twain
22 telephone, all of which provided service in Schuyler
23 County. None of these studies produced a sufficient
24 percentage required to establish a COS line.

25 "I then personally placed several calls to

1 Southwestern Bell Telephone inquiring if they were planning
2 to provide internet access to their customers in Schuyler
3 County. After speaking with several different
4 representatives, I was told that they had no plans
5 whatsoever now or in the foreseeable future to provide
6 internet access in this area.

7 "Having exhausted all avenues available to
8 us, we began discussions with Mr. Gary Godfrey of Northeast
9 Missouri Rural Telephone Company. He informed us that he
10 would ask his board of directors to provide us the internet
11 access. They agreed. Thanks to Mr. Godfrey and the board
12 of directors we now have this much needed service."

13 Q. But they had to still secure COS?

14 A. No. They didn't pass any of the guidelines
15 for COS, so we took equipment into Lancaster and served
16 them.

17 Q. Okay. But that's not Queen City.

18 A. The Queen City to Lancaster route didn't
19 qualify for COS.

20 Q. The Queen City to Kirksville --

21 A. It was already there.

22 Q. Okay. I see.

23 A. We were trying to get service to Lancaster,
24 not Queen City, because we already served Queen City.

25 Q. Okay. Good. Now I understand. Thank you

1 very much. Then I only had a couple of other questions.

2 On page 10 of your testimony you discuss
3 that Staff was there using COS as a component for internet,
4 that you had conversations last summer. Could you tell me
5 who your conversations were with?

6 A. With Gay Smith.

7 Q. And could you tell me exactly what you
8 discussed with Ms. Smith?

9 A. Yes. We signed up a customer in Kirksville
10 for internet on August 27th of 1996, and the customer lived
11 in a dormitory at Truman State University. And we knew at
12 the time that anybody placing COS calls from that dormitory
13 that -- those calls are handled by the state network, and
14 they don't recognize COS calls. We knew that, but
15 apparently the student didn't get that message or we didn't
16 advise him properly.

17 So he got a toll bill from the university
18 for over \$200, and he called me, of course, and was very
19 upset. So I immediately called Gay Smith and discussed it
20 with her, advised her that this was one of our internet
21 customers that was trying to access our COS line; and he
22 was charged a toll call and why would that be? We already
23 knew it was the case. We were just trying to see if there
24 was something we could have done about it.

25 She was very kind and helpful, as she

1 always is, but she said there was nothing she could do.
2 But she was going to check into it. I called her again a
3 second time, discussed it with her. Again, she said there
4 was nothing she could do. I also advised that customer of
5 ours to call her, and I don't know if he did or not.

6 In the end we ended up saying, "Well, it's
7 partially your fault, partially our fault. We'll give you
8 back half of the toll calls that the university charged
9 you." So we wrote him a check for a little over a hundred
10 dollars.

11 Q. I see. And when you state that Staff
12 didn't express to you any concerns about using COS for
13 internet purposes, you also state that Staff was
14 encouraging your company to bring internet access to rural
15 communities.

16 A. Yes.

17 Q. Who on Staff was encouraging you to bring
18 internet access?

19 A. One specific case I remember was during an
20 earnings review here with Staff. J. C. Stock was there,
21 and J. C. -- we were discussing us providing tele-medicine
22 to some of our local hospitals, which we have done, and
23 also I-TV to some of our local schools, which we have
24 done. And he also advised us that it would be something we
25 needed to look into, to provide internet services to our

1 communities. And he strongly encouraged us to do that, and
2 I know he has encouraged other companies to do that. And
3 we started looking into it.

4 Q. Was he aware of the COS component?

5 A. At that time we had not even thought about
6 how we were going to provide it. No. He didn't mention
7 anything about COS.

8 Q. So encouraging you to use internet and
9 having no concerns about COS being the vehicle are really
10 two different --

11 A. Yes.

12 Q. -- issues?

13 A. That's correct in that case.

14 Q. And when you state that the Staff raised no
15 objections or concerns with respect to the use of COS, was
16 there ever a direct question to a Staff member about --

17 A. No.

18 Q. -- this is the way we would like to set it
19 up and be able to bill?

20 A. Not to my knowledge. Like I said before,
21 it never occurred to us that there was any problem with
22 that. You know, I openly discussed it with Gay Smith as to
23 how we were doing it. I mean, it never occurred to me we
24 needed to ask permission.

25 Q. Sure. Sure. But I mean, I just wanted to

1 make sure that there wasn't a pointed question to Staff to
2 respond to.

3 A. No. I just specifically remember
4 discussing this internet customer and our use of COS and
5 got into that in some detail.

6 Q. Sure.

7 A. But, no, I never asked permission, because
8 I didn't think we needed to.

9 Q. I guess my final question is, you stated
10 that the student had \$200 in toll charges?

11 A. Yes.

12 Q. Do you think that's probably a realistic
13 monthly charge if one doesn't have something like COS for
14 carrying the traffic?

15 A. Well, he wouldn't have been making those
16 calls if he had to pay for them. If he'd known in advance
17 it was going to cost him \$200, the calls never would have
18 happened. So the COS traffic, if it's charged on a usage
19 basis, it's going to disappear.

20 Q. Would he have -- okay. This will be my
21 last question. If the student were paying COS, would his
22 have been a business charge of the \$33.50 or \$16 for a
23 residential customer?

24 A. If he were buying it on his own -- and
25 there again, I don't know how the university does it. If

1 he were out in the rest of the exchange, he would have been
2 a residential customer if he were calling any number in
3 Green City or -- well, I take that back. That service is
4 not available from Kirksville out, unless you're calling an
5 existing COS number that somebody in Green City or Novinger
6 has paid for.

7 Q. Okay.

8 A. He's a return call.

9 COMMISSIONER DRAINER: Okay. Thank you
10 very much.

11 ALJ ROBERTS: Commissioner Crumpton?

12 COMMISSIONER CRUMPTON: Yes.

13 QUESTIONS BY COMMISSIONER CRUMPTON:

14 Q. Good morning.

15 A. Good morning.

16 Q. Is it unlawful to use WARNET for a
17 commercial enterprise?

18 A. I heard that come up yesterday. I'm glad
19 you asked that. I wanted to clarify. No.

20 Q. It is not unlawful?

21 A. Their definition of commercial is different
22 than you or I might think of it. Their definition of
23 commercial is if you're trying to sell goods or services
24 over the internet. You can get internet access. We, using
25 their backbone, could supply internet access to both

1 business and residential customers, but we could not allow
2 them to sell their goods or services. So those business
3 customers that want to set up web pages to sell their
4 services, we had to send them to a web server in Kansas
5 City for them to put their home page on. It couldn't be on
6 our server. But what we were doing with MORENET, they knew
7 about, and it was okay with them.

8 Q. Did you have to pay them to use their
9 backbone?

10 A. Yes. Certainly.

11 Q. And what did you pay them?

12 A. I don't know the -- I don't know. I could
13 venture a guess, but I --

14 Q. Could you provide that to me?

15 A. Yes, I could.

16 Q. And would that include the bill and the
17 statement that you paid?

18 A. Yeah. We paid them. Okay.

19 Q. Okay. I'm trying to get an understanding
20 of how this internet system works.

21 A. Okay.

22 Q. I heard the term you use, "server," and I
23 understand what that is. I heard the term "modem pools"
24 being used, and I understand what that is. And let me ask
25 you a question. Do you use lease lines between the modem

1 pools and the servers?

2 A. In some cases. We have a modem pool right
3 there at the server location in Green City, so there's no
4 line needed there.

5 Q. Right.

6 A. We also have a modem pool in Novinger, and,
7 yes, there's a circuit between those two modem pools.

8 Q. Okay. Do you use multiplexors?

9 A. What we use -- maybe I don't understand the
10 definition of multiplexor. But what we use is a router
11 in -- okay. The last box we bought, about the size of a
12 VCR, and it cost \$15,000. It has 24 internal modems, and
13 the router itself takes the call that hits the modem and
14 routes it out to the circuits.

15 Q. How does it route eight -- let's say you
16 have 20 calls -- I mean, eight calls coming into that
17 router. How does it get those calls over to the server?

18 A. It goes -- if it goes out to the world, it
19 goes over a T1. If it goes to the server, we have an
20 Ethernet connection going from that router down to the
21 server. We have what's called a hub router where all the
22 other routers behind come to, and that's Ethernet and over
23 to the server.

24 Q. Could you find out if you use
25 multiplexors --

1 A. Sure.

2 Q. -- and let us know that?

3 A. Okay.

4 Q. Now, the last piece of that would be COS

5 routes. Is that correct?

6 A. I'm sorry?

7 Q. You have servers, lease lines, modem pools,

8 and maybe multiplexors, and then you use also COS routes in

9 order to provide --

10 A. Yes.

11 Q. -- this service?

12 A. That's correct. You know, there's a lot of

13 software involved, maintenance. We provide a help desk

14 where people that are having trouble with the internet can

15 call and get assistance. What we have found is it is an

16 extremely expensive business to offer in rural America, and

17 that's why nobody else is out there.

18 Q. Right. But you must be making money;

19 otherwise --

20 A. No, we're not.

21 Q. You're not making any money on this?

22 A. No, sir.

23 Q. Do you keep -- is this -- do you have some

24 way of telling whether or not you are making money or

25 losing money?

1 A. Yeah. We account for it on a deregulated
2 side. We have accounts established to track that.

3 Q. Okay. So in your records you would have a
4 profit and loss statement on this issue?

5 A. Yes.

6 Q. Could I have a copy of that profit and loss
7 statement and the -- a statement of your assets that are
8 involved in this process?

9 A. Okay. I think we've invested about
10 100,000.

11 Q. Okay. Could I have a copy of assets?

12 A. Yes, sir.

13 Q. And you can do it in a normal business way
14 with assets and liabilities and then a profit and loss.

15 A. We've done it in a very simple process. We
16 have an account set up for deregulated revenues associated
17 with internet.

18 Q. So you just comingle that with any other
19 deregulated revenues?

20 A. No. It's itemized. It's one account for
21 internet deregulated and then an expense account for
22 expense internet deregulated.

23 Q. Okay.

24 A. So would that be sufficient?

25 Q. Well, if it looks like something a business

1 would use like a profit and loss statement or a statement
2 of assets and liabilities, I would appreciate that.

3 A. Okay.

4 Q. Do you have a design of this network? How
5 does this thing work? And I'm assuming that RAIN is the
6 party that is really managing your servers and routers and
7 things like that?

8 A. The servers -- the routers and modem pools,
9 we do that.

10 Q. Oh, you manage that?

11 A. Yes.

12 Q. Well, could you provide us with a design of
13 what this internet network is so that, you know, I can look
14 at it and tell what's going on?

15 A. Uh-huh.

16 Q. Could you?

17 A. Yes.

18 Q. Now, my understanding is that RAIN does a
19 certain amount of work for the ten owners, and part of that
20 is securing the backbone network services.

21 A. That's correct.

22 Q. Okay. On the Southwestern Bell customers,
23 is it true the more vigorously you sell internet services
24 to their customers, the worse off Southwestern Bell
25 becomes?

1 A. No.

2 Q. Well, could you explain your answer in
3 relation to the question that you answered for Mr. Lane
4 earlier where you pay Southwestern Bell thirty some dollars
5 and the customer paid you 200 or -- help me understand.

6 A. As I understand it, he was speculating in
7 the future in a what-if case. That what-if is if we were
8 paying them for terminating access, which we're not.

9 Q. Oh. You're not. Okay. So the more --

10 A. I got that wrong. If they were paying us
11 for terminating access.

12 Q. So the more vigorously you sell this
13 service, the more money you lose and the more neutral
14 Southwestern Bell remains?

15 A. We hope that there is an economy of scale,
16 that as we get more customers, that it will break even.
17 That's our goal.

18 Q. Okay. But did you answer my question? Is
19 it true that the more vigorously you sell this service, the
20 worse off right now your company becomes?

21 A. I don't believe that's true. I hope not.

22 Q. Did you say that this was a losing service?

23 A. It is currently.

24 Q. Well, then at this moment the more
25 customers you add -- or at this moment are you losing money

1 on this service?

2 A. Yes.

3 Q. If you sold another customer, would you
4 lose more money?

5 A. What I'm thinking is we have a certain
6 amount of fixed costs with our securing the backbone.

7 Q. Okay.

8 A. And as we grow more customers, that fixed
9 cost will be spread over more customers. And hopefully if
10 you get a -- there's a point, if you get enough customers,
11 you will break even, and you will make a profit beyond
12 that.

13 Q. Okay. So the fixed costs are so great that
14 you're recovering your marginal costs. Is that what you're
15 telling me?

16 A. Yes.

17 Q. You're recovering your marginal costs, and
18 each new customer you add is making a contribution to your
19 joint and common costs. Which you're currently losing
20 money on?

21 A. Yes.

22 Q. Okay. I understand now. Did COS traffic
23 increase as a result of your offering internet services?

24 A. We don't track the terminating calls coming
25 back. But I'm sure it has, because we know the usage of

1 the internet customers. So I'm sure it has.

2 Q. Has gone up. Do you know how much the
3 increase has been?

4 A. No.

5 Q. Because you're billing these people, are
6 you not?

7 A. We're billing the internet customer, so we
8 know pretty much what their usage is. But we don't measure
9 the terminating traffic coming from Bell to our exchange.

10 Q. Well, let's say that if you know the answer
11 to that question, if you know how much traffic to bill your
12 customers or for what you bill your customers, then don't
13 you know the increase in the traffic as a result of
14 offering that service to your customers?

15 A. That's correct. It has increased. There's
16 a few complications there in that they may be logged into
17 more than one service at one time, so there's more internet
18 usage showing up than there are actual COS bands. But,
19 yes, I can assure you that it would increase. Usage of
20 that COS terminating would have increased with our
21 introduction of internet.

22 Q. And do you know the answer to my question,
23 how much it has increased?

24 A. I know how much our customers use the
25 service.

1 Q. Can you provide us with a statement of the
2 traffic that is caused by this internet service for which
3 you're billing customers?

4 A. Yes, we could.

5 Q. Will you?

6 A. Yes. Got that?

7 MR. JOHNSON: Yes.

8 BY COMMISSIONER CRUMPTON:

9 Q. Okay. So that takes care of the question
10 of how much the traffic increased. And I had some
11 questions on the multiplexors, but you're going to find out
12 about those?

13 A. Yes. I've not heard any of our technicians
14 use the term multiplexing, but I think the equipment we
15 have does that. But they don't refer to that as that.

16 Q. What a multiplexor does is it basically
17 takes -- if you're using a T1 anywhere, it basically takes
18 a large number of conversations and puts them on that T1 so
19 that they don't interfere with each other, send them down
20 to your server where there's something else, a
21 demultiplexor, unscrambles those conversations, and then
22 introduces them into the internet server as though they
23 were separate calls.

24 A. I think our routers do that.

25 Q. But the router is just an access. In other

1 words, it gives you -- you come into the router, and then
2 you must get onto some type of device that takes you across
3 those cables or whatever --

4 A. Okay.

5 Q. -- to the term-- to the end point.

6 A. Okay.

7 Q. So you think you may have some of those?

8 You'll find out?

9 A. I'll find out.

10 Q. Okay. I'll see that -- if you provide us
11 with some kind of detail about how this network is set up
12 and how it's operating, then we can also read them and
13 see.

14 A. Okay.

15 Q. I'd like to ask you some questions
16 concerning Mr. Ensrud's testimony. Did you by any chance
17 read his testimony?

18 A. I'll be honest with you. I reviewed it
19 last night after you made that comment yesterday. I did
20 not review it word for word, but I did review the three
21 testimonies.

22 Q. But you did not review it until last night?

23 A. No, I did not.

24 Q. Okay. From your side of this discussion,
25 to your knowledge did anyone -- any expert witness read

1 Mr. Ensrud's testimony and is prepared to discuss his
2 analysis of COS for me?

3 A. To my knowledge, I don't know.

4 Q. Okay. In spite of the fact that I asked
5 questions about it last night, and apparently, if I ask
6 questions, I must think it's important. To your knowledge
7 no one has decided to --

8 A. I've not discussed it with anybody else.

9 Q. Okay. I think you've answered my questions
10 on the profit and loss statement. And my question now is,
11 is internet service a profit center for RAIN?

12 A. No.

13 Q. In other words, does RAIN make any money
14 off of it?

15 A. RAIN distributes their costs back to the
16 member companies.

17 Q. So does RAIN have physical control over
18 assets?

19 A. Yes.

20 Q. Okay. On page 9 of your testimony you
21 mention in your response to the question -- on page 5,
22 excuse me, "Rural LECs have been encouraged by public
23 authorities to become involved in provisioning internet
24 access to rural areas of the state."

25 Can you identify who those authorities are,

1 and can you provide us with any form of documentation other
2 than conversations?

3 A. I have this one example of the Schuyler
4 County assessor, that letter.

5 Q. Okay. Is that the only one?

6 A. That's the one I read. Most of our other
7 conversations have been verbal, where they've -- there was
8 one request from Kahoka, and our board even took action on
9 that. So there would be some board activity on that one.

10 Q. So there are maybe two that you have
11 documentation on?

12 A. Yeah. Most of the rest were verbal. An
13 example, though, after we started introducing service, we
14 have -- like the Kahoka Police Department is on our
15 service, the Kirksville Police Department, Kirksville city
16 administration, Kirksville Chamber of Commerce. Some of
17 the biggest factories in Kirksville have our service. You
18 know, we have judges that judge in Clark County. It's more
19 indicative of the customers that come on once the service
20 is put in there. They make the request ahead of time, but
21 once we provide service, we get a lot of public officials
22 and businesses that become customers.

23 Q. Okay. So most of this encouragement was by
24 word of mouth?

25 A. Yes.

1 Q. On page 7 of your testimony, at the top of
2 it, you're speaking of a very expensive 800 number
3 service. Who was this very expensive 800 number service
4 provider? Do you know?

5 A. No. MORENET relayed that information to
6 us, but I don't recall who the provider of the service was.

7 Q. So MORENET was used to -- as a vehicle to
8 stop normal commercial activity?

9 A. That was one of the requirements. If you
10 use MORENET service, you could not sell products and
11 services over their lines.

12 Q. No. What I meant was, there was a company
13 apparently providing this 800 number service, but as a
14 result of converting over to MORENET, you got away from
15 that 800 --

16 A. Actually, it was MORENET that got away
17 from --

18 Q. Okay. MORENET got away from that.

19 A. What they did was, they gave school
20 teachers and school officials an 800 number they could call
21 to access their internet service. And MORENET was picking
22 up the tab on that, so they wanted us to provide local
23 access so those teachers and school officials could call
24 our local number and would save that money.

25 Q. Okay. Fair enough. On page 7, the first

1 question, do you have any documentation to support this
2 statement in your answer on page 7, "Requests were made by
3 local government authorities, private residents, and
4 several small businesses"?

5 A. There again, most all those were made
6 verbally. I did keep a file with some telephone messages.
7 Then, of course, I have the letter from the Schuyler County
8 assessor that documents his struggles with getting internet
9 to his town and how we went there. I probably had twenty
10 conversations with that man over the year trying to get
11 service in there.

12 Q. All right.

13 A. We have a lot of conversations with
14 Kahoka. We have the town of La Plata, Downing, lots of
15 small towns that call us. And we should keep better
16 records of that, but most of it is telephone conversations.

17 Q. So I think you've answered my question.
18 And I think you answered my next question, which was who
19 the employee was that you allude to on page 8.

20 A. Yes. That was an employee that works in
21 Kirksville.

22 Q. Was that the switchman or --

23 A. Yes. I don't know his job title, but he
24 answers the phone at the switch.

25 Q. Okay. So he was aware that you were making

1 use of this?

2 A. Yes. He was one of our customers for over
3 a year.

4 Q. And I believe you've answered the
5 identification of a person -- the Staff member at the
6 bottom of page 8?

7 A. Yes.

8 Q. Is that Gay Smith?

9 A. Gay Smith.

10 Q. Okay. Who is COIN?

11 A. I don't know what that stands for, but
12 they're a community information network, I believe, out of
13 the Columbia area. And I receive my information from one
14 of their board members.

15 Q. So does COIN use a similar kind of
16 arrangement?

17 A. I've been told by a board member of COIN
18 that they -- their customers -- they subscribe to COS, and
19 their customers call that COS number.

20 Q. Now, if I remember correctly, COIN has
21 maybe twelve to 15,000 customers. Do you know how many
22 customers they have? Or you don't know anything --

23 A. I don't know anything.

24 Q. Okay. All right. And I think you answered
25 the question on page 10 about who the Staff member was?

1 A. Yes.

2 Q. Commissioner Drainer asked that question.

3 Okay. On page 12 in your answer -- I guess it's the second
4 paragraph of your answer. We will -- "If our use of COS is
5 determined improper, we will terminate its use and develop
6 other means to provide internet access to our current
7 internet customers." What other means do you have in mind?

8 A. Like I mentioned at Lancaster, we had to
9 physically go in there and establish a router and modem
10 pool, buy service from the local exchange company and do it
11 that way. There may be other calling plans that may be
12 available. We will do everything we can to serve those
13 customers in the lowest cost fashion.

14 Q. Would remote call forwarding be an answer
15 or one of the possible solutions?

16 A. It would be one of the possible solutions,
17 depending on the toll rates or if there were toll rates to
18 remote call forward that customer back. That's the
19 problem, getting the call from one exchange to another, and
20 in some small exchanges it's just not feasible to put in a
21 lot of expensive equipment right in that exchange. So
22 you've got to transfer them to another exchange somehow.

23 COMMISSIONER CRUMPTON: Okay. Mr. Godfrey,
24 that finishes my questions. Thank you very much.

25 ALJ ROBERTS: Commissioner Murray? Excuse

1 me. Mr. Godfrey, you may need to pull your mike closer or
2 else speak up.

3 THE WITNESS: Okay. I'm sorry.

4 ALJ ROBERTS: Commissioner Murray?

5 QUESTIONS BY COMMISSIONER MURRAY:

6 Q. Good morning, Mr. Godfrey.

7 A. Good morning.

8 Q. Would a possible alternative for your
9 company be to purchase an 800 number service where the
10 customers -- your internet customers from Kirksville to
11 access your service?

12 A. In the research that I've done, about the
13 lowest cost 800 number would be about 10 cents a minute.
14 So you would be talking \$6 an hour, and that would be cost
15 prohibitive.

16 Q. Okay. So if you pass that on to your
17 customers, that would be --

18 A. Yes.

19 Q. -- significantly increase their --

20 A. Yes.

21 Q. -- costs? Right now you say that you're
22 losing money on the internet business?

23 A. We did during '96.

24 Q. Where is that revenue made up?

25 A. That is deregulated, and there is no

1 recovery.

2 Q. So, obviously, you can't continue --

3 A. No.

4 Q. -- that very long?

5 A. No.

6 Q. Earlier in -- I think it was when Mr. Lane
7 was questioning you. One of you -- and I don't recall
8 which one -- said at some point Southwestern Bell pays more
9 in access than it receives on the COS side.

10 A. He, again, as I recall was speculating what
11 if they had to pay us terminating access.

12 Q. Okay. And then at some point you would
13 reach that level where Southwestern Bell was paying out
14 more than it was receiving?

15 A. Yes.

16 Q. How likely is that to occur in the future
17 that the calculation would change to actual measured
18 minutes?

19 A. I mean, it would probably be beneficial for
20 us to do it right now, so it's whenever Southwestern Bell
21 agreed that that's what they wanted us to do, I guess. I
22 don't have control over that. We could do it at any time,
23 I suppose.

24 Q. Why would they want you to do it?

25 A. Originally -- I guess I can't answer for

1 them. I'm sorry.

2 Q. If there is a loss in revenue to
3 Southwestern Bell, how is that loss made up, do you think?

4 A. Well, see, historically in rural exchanges
5 like we serve, the cost of providing a service exceeds the
6 revenue the customers pay. I mean, that's been the case
7 ever since I've worked for the phone company. And on the
8 interstate side that's a very simple thing. We recover our
9 costs from a pool called the mega pool. We turn over all
10 the revenues for interstate over to that pool, and then we
11 turn our costs over and take the costs out.

12 On the state side we went to access
13 charges, and the only way we get new revenues to provide
14 new service, to buy new equipment is for growth in those
15 access minutes. That provides the new revenues we need to
16 expand services or offer better services.

17 And in Southwestern Bell's case, you know,
18 they cover metropolitan areas. And they may very well be
19 losing money in their rural exchanges, but they have a huge
20 metropolitan area of which, I assume, they're making money
21 off of those, because I assume they're making a good
22 profit. So they can spread their costs among all their
23 customers which include metropolitan areas. We don't have
24 that luxury.

25 Q. So is it fair to say when they lose money

1 in the area of offering COS, that their other customers

2 subsidize that?

3 A. Yes.

4 COMMISSIONER MURRAY: That's all the

5 questions I have. Thank you.

6 ALJ ROBERTS: Commissioner Crumpton, you

7 have another question?

8 COMMISSIONER CRUMPTON: Yes.

9 QUESTIONS BY COMMISSIONER CRUMPTON:

10 Q. I'd like to go back to the questions you

11 just answered for Commissioner Murray. Does your company

12 receive USF funding?

13 A. Yes.

14 Q. What percent of your revenue is that?

15 A. I don't know offhand.

16 Q. What percent of your revenue do you have

17 from your local customers?

18 A. Less than 10 percent.

19 Q. So 90 percent of your revenue comes from

20 support services systems like access charges and universal

21 service funds. Is that correct?

22 A. And NECA pooling in cost settlements.

23 Q. What is your gross revenue annually,

24 counting all products and services of your company whether

25 they're regulated or not?

1 A. The vast majority of our revenues are
2 regulated revenues.

3 Q. Okay.

4 A. And I'm going to have to venture a guess
5 here.

6 Q. Could you get the correct number for me --

7 A. Sure.

8 Q. -- and provide that? Yesterday I asked for
9 a number of items from the earlier witness, and I'd like to
10 have those same numbers from your company. How many
11 customers do you have?

12 A. Northeast Missouri Rural Telephone has
13 approximately -- just slightly over 4,000 access lines.

14 Q. And do you know how much -- do you know the
15 monetary value of your current assets?

16 A. I believe they're around \$22 million.

17 Q. \$22 million. And do you know how that's --
18 is that cash?

19 A. Oh, no.

20 Q. What is it?

21 A. Mainly plant, switching equipment and
22 buried cable, fiber optic cable.

23 Q. Okay. Then we have a problem with the
24 definition of current assets.

25 A. Oh, I'm sorry. I misunderstood. That was

1 total assets I gave you. Yeah. I didn't understand what
2 you said. Current assets, no. I do not know. I could get
3 that for you.

4 Q. Would you please? And file that in this
5 record.

6 To Commissioner Murray I got the impression
7 that your company is willing to just lose money on internet
8 service. Can you use the profits from your local telephone
9 operation to finance your losses on your internet services?

10 A. We -- as I understand it, we can choose to
11 use those profits as we choose, but none of the costs or
12 expenses or losses we incur on the deregulated side can we
13 recover through the regulated side. But we can use the
14 profits, once they're received, for that.

15 Q. So the answer to my question is what?

16 A. Yes, we can use the profits.

17 Q. To finance the losses --

18 A. To finance the loss for internet.

19 Q. -- on internet services. That's my last
20 question. Thank you.

21 A. Thank you.

22 QUESTIONS BY ALJ ROBERTS:

23 Q. I want to make one thing clear for the
24 record and also talk about the exhibit that's pending. The
25 letter that you read into the record in response to some

1 questions for Vice Chair Drainer, what was the date?

2 A. It's dated June 17th of this year.

3 Q. 1997?

4 A. This was his recap. I talked to him, and I
5 explained that I was coming down here. And I said, "You
6 know, I don't really have documentation in my file."

7 Q. Okay.

8 A. "We have board resolutions and such. But
9 could you put it in writing, your struggle with getting
10 internet?"

11 ALJ ROBERTS: That's fine. And,
12 Mr. Johnson, I think the items that have been requested
13 from the bench from this witness should be -- can all be
14 put in exhibit number -- we'll reserve Exhibit No. 39 for
15 that.

16 MR. JOHNSON: All in one exhibit?

17 ALJ ROBERTS: I think so.

18 MR. JOHNSON: Does the bench have any
19 objection if we do the same information for Northeast as
20 was requested from Mid-Missouri as comparable exhibits?
21 That way we may not need the four or five exhibit numbers
22 that were reserved for Mid-Missouri yesterday, if you want
23 these on a single page.

24 ALJ ROBERTS: That's fine. That's fine.

25 MR. JOHNSON: Would you allow me a little

1 freedom of number of exhibits to put if in the format you
2 want?

3 ALJ ROBERTS: That's fine. Thank you.
4 Questions based upon questions from the bench, and then we
5 will end up back to Mr. Johnson for his questions and for
6 his redirect. Questions go first to Small TelCo Group?

7 MR. ENGLAND: No questions.

8 ALJ ROBERTS: Public Counsel?

9 MR. DANDINO: No questions, your Honor.

10 ALJ ROBERTS: TCG?

11 MS. FORREST: No questions.

12 ALJ ROBERTS: AT&T?

13 MR. DEFORD: No questions.

14 ALJ ROBERTS: MCI?

15 MR. CURTIS: No questions.

16 ALJ ROBERTS: GTE?

17 MR. STROO: Two questions based on
18 Commissioner Crumpton's questions, your Honor.

19 ALJ ROBERTS: Sure.

20 RECROSS-EXAMINATION BY MR. STROO:

21 Q. Don't most start-up businesses lose money
22 at first?

23 A. I suspect they do.

24 Q. And when do you expect your start-up
25 business in the internet to begin making money?

1 A. I would hope in '97.

2 MR. STROO: Thank you.

3 ALJ ROBERTS: CompTel?

4 MR. ANGSTEAD: No questions.

5 ALJ ROBERTS: Southwestern Bell?

6 MR. LANE: I do have a couple.

7 RE CROSS-EXAMINATION BY MR. LANE:

8 Q. This is a follow-up question to

9 Commissioner Crumpton. He was asking questions about the

10 increased usage of COS, what impact that has on

11 Southwestern Bell. You discussed the access charge

12 component of it and indicated that if you chose to change

13 your measurement or your T/O ratio, that that would

14 increase our cost. Do you recall that?

15 A. If we -- the way I remember it, if we go

16 from T to O to actual, yes, it would increase --

17 Q. Or if you update your T/O ratio, same

18 thing. Right?

19 A. Yes. Yes. That's correct.

20 Q. And there's another aspect of Southwestern

21 Bell's cost, is there not, the cost of the total network

22 that's being utilized to provide the COS service. Correct?

23 A. Yes, just like our toll network is also

24 being used.

25 Q. Network costs that we incur carrying those

1 calls on top of whatever we have to pay in access charges

2 to your company. Isn't that right?

3 A. Yes.

4 Q. And so if there's increased internet --

5 increased COS usage as a result of internet access, that

6 winds up increasing our cost, does it not?

7 A. Yes.

8 Q. It also winds up decreasing revenues that

9 are available to Southwestern Bell from toll, does it not?

10 A. I can't picture that in my mind.

11 Q. Okay. You mentioned in your testimony that

12 Southwestern Bell has a toll offering called designated

13 number optional calling plan. Do you recall that?

14 A. Yes.

15 MR. JOHNSON: Objection, your Honor. This

16 is beyond the scope of the questions raised by --

17 MR. LANE: No. This is in response to

18 questions that Commissioner Drainer had asked about

19 alternatives that that customer would have, Kirksville

20 customer.

21 MR. JOHNSON: This was mentioned in the

22 surrebuttal testimony. Commissioner Drainer never

23 mentioned the word designated number or one plus saver. I

24 think this is beyond the scope of the questions that were

25 raised --

1 ALJ ROBERTS: Well, I'll sustain that
2 objection. But I think if you want to ask a question in
3 response to whatever was asked from the bench --

4 MR. LANE: All right.

5 BY MR. LANE:

6 Q. In response to questions from Commissioner
7 Drainer about what alternatives the Kirksville customer
8 would have to access if COS were not available, would a
9 designated number optional calling plan be a service that
10 that type of customer could utilize?

11 A. We currently have customers in our
12 territory subscribe to designated number calling internet
13 providers in Kansas City, and that -- you're paying full
14 access on that.

15 Q. Those customers in the Kirksville exchange
16 that Commissioner Drainer was asking about could call for a
17 flat fee of \$15 a month to access the internet if COS were
18 not available. Correct?

19 A. That cost, plus the charges we have for
20 internet, yes.

21 MR. LANE: All right. Thank you. That's
22 all I have.

23 ALJ ROBERTS: United?

24 MS. GARDNER: No questions.

25 ALJ ROBERTS: Staff?

1 MS. MCGOWAN: Just a few.

2 RECROSS-EXAMINATION BY MS. MCGOWAN:

3 Q. We were talking -- it was in response to

4 some of the questions from Commissioner Crumpton relating

5 to the MORENET. Do you know what MORENET charges for

6 access?

7 A. For the fee? I said that I would get those

8 figures. I don't recall offhand.

9 Q. For the backbone fee?

10 A. Yeah. They charge an annual fee for

11 providing that, backbone fee. And I kind of have an idea

12 in my mind, but I'm afraid that wouldn't be accurate. I

13 would need to see it in print.

14 Q. Do you know when RAIN stopped using MORENET

15 specifically?

16 A. Around the first of the year we had UUNET.

17 Then we had both UUNET and MORENET for a time, and I

18 believe --

19 Q. Was it potentially last month?

20 A. Potentially last month, and if I'm not

21 mistaken we may still have like a smaller circuit, 56 kb

22 circuit, going to MORENET to service the schools that they

23 wanted us to get then to them. But all of our basic

24 internet traffic goes to UUNET now.

25 Q. Do you know why RAIN stopped using MORENET

1 last month?

2 A. Primarily we were looking at a lower cost
3 alternative, and we wanted to offer commercial services.
4 We wanted to be able to put commercial web pages out there
5 for businesses to transact business.

6 Q. Okay. When you said you were losing money
7 on your internet service, were you talking about internet
8 service as a whole, including those exchanges where you
9 have to eat the cost basically of putting in the equipment,
10 or were you talking about internet COS service?

11 A. No. I'm talking internet as a whole.

12 Q. As a whole. Do you know whether you are
13 losing money on those pieces of internet service that
14 utilize COS?

15 A. We have no way of segmenting that that I
16 know of. We just plug it all into expenses and revenue.

17 Q. But it's receivable as -- if the service as
18 a whole has X invested cost and you put the cost into those
19 areas without COS? You said you had quite a bit of capital
20 investment to offer in a small community that you wouldn't
21 have to get a COS route?

22 A. (Witness nods head.)

23 Q. Okay. I guess let the record reflect the
24 witness nodded.

25 A. Yes.

1 Q. Thanks. I have one more question. Have
2 you reviewed MORENET's acceptable and unacceptable use
3 policy?

4 A. The RAIN staff has reviewed that. We have
5 met with Tony Mooney of MORENET. We have had several
6 discussions. I've had Emails from him discussing what was
7 acceptable. I can't say that I personally have sat and
8 read those. We've had people advise us of it. MORENET is
9 aware of what we do. We've never heard objections on what
10 we've done.

11 MS. MCGOWAN: No further questions.

12 ALJ ROBERTS: Mr. Johnson?

13 MR. JOHNSON: Thank you, your Honor.

14 REDIRECT EXAMINATION BY MR. JOHNSON:

15 Q. I have a few questions, Mr. Godfrey. In
16 cross-examination Staff brought up that your current local
17 rate for Northeast residential customers is \$5 per month?

18 A. Yes.

19 Q. Was the rate ever higher than that?

20 A. Yes.

21 Q. When was that?

22 A. Prior to 1985 those rates were higher. We
23 had a rate case in '85, and lowered those rates to \$5.

24 Q. The Commission approved that rate of \$5 at
25 that time?

1 A. The Commission ordered those rates.

2 Q. On cross-examination Mr. Lane from
3 Southwestern Bell was discussing your access rates, and I
4 think he brought out that your permanent access rates were
5 33 cents a minute. You indicated that that was a pre-cap
6 rate?

7 A. I believe. That rate sounds like the
8 pre-cap rate.

9 Q. Would you explain to the Commission what
10 the purpose of the, quote, cap is on access rates?

11 A. As I recall, whenever we went from a cost
12 pool type settlement arrangement into charging access
13 charges, we took the existing revenues that we were
14 receiving at that time from the pool, divided that by the
15 total minutes that we had during that test year, which in
16 our case was around 6 million minutes, and we developed a
17 rate based on that.

18 And then they went on to say any new
19 minutes created after this test year period will be at this
20 lower cap rate, and I believe the difference between the
21 two rates -- it evades me now, but it was a certain cost
22 element in the rates.

23 Q. Can you tell the Commission as opposed to
24 the pre-cap rate of 33 cents a minute what the post-cap
25 rate is for Northeast?

1 A. I can't tell you, but it's extremely
2 discounted from that.

3 Q. Approximately what ballpark?

4 A. It might be a 10 cent reduction.

5 Q. And has Northeast ever got to the point
6 where you are receiving access on the lower post-cap rate?

7 A. I'm sorry, Craig?

8 Q. In any year have you ever received access
9 minutes paid for at the post-cap rate, the lower rate?

10 A. Sure. Every year.

11 Q. And can you tell me when in the typical
12 year you reach the cap?

13 A. It's been coming earlier and earlier every
14 year since we went to the cap rate basis, and I believe
15 last year it was August or September.

16 Q. So for approximately two-thirds of the year
17 you get the full rate; approximately one-third of the year
18 you get the reduced rate?

19 A. As usage grows, more and more minutes will
20 be above the cap rate.

21 Q. Let me ask you a few questions about data
22 transmissions and internet access usage. In 1993 when the
23 Commission restructured COS to its present form, were
24 telephone lines and telephone services used to transmit
25 data, computer-driven data separate and apart from whether

1 the internet existed?

2 A. On a dial-up basis, not to my knowledge.

3 Q. To your knowledge was the use of -- was
4 data transmission via COS ever prohibited by the
5 Commission?

6 A. Not to my knowledge. I never thought there
7 was any problem with it.

8 Q. And is Rich Taylor the only person that you
9 can call if you want to ask a question of Southwestern Bell
10 about their services or --

11 A. I hope not. I talk to several members in
12 their staff about other problems. I rarely talk to Rich,
13 because I know he's very busy.

14 Q. You mean Southwestern Bell has more than
15 one employee?

16 A. Certainly.

17 Q. Okay. You mentioned the name Elmer Weiss.
18 What's his position with the company?

19 A. I don't know his job title. We work with
20 Elmer extensively on laying out new circuits and whenever
21 we're putting in new switching equipment that they'll need
22 to be involved with. Elmer is always very helpful.

23 Q. Do you know whether or not Mr. Weiss
24 reports to Mr. Taylor?

25 A. I don't know that for a fact. I always

1 assumed he did.

2 MR. JOHNSON: That's all I have.

3 ALJ ROBERTS: Thank you very much, sir. Do
4 you have more questions?

5 COMMISSIONER CRUMPTON: Yes.

6 ALJ ROBERTS: Commissioner Crumpton?

7 QUESTIONS BY COMMISSIONER CRUMPTON:

8 Q. Mr. Godfrey, I'm getting more confused each
9 time you answer a response from Mr. Lane. I earlier asked
10 if it was true the more vigorously you sold this internet
11 service, in other words, the more customers you added in
12 Kirksville, the worse off Southwestern Bell becomes. Now,
13 based on your last series of questions with Mr. Lane, what
14 is your response to that question?

15 A. Currently it has no impact on them as far
16 as access settlements. The point he was trying to make is
17 it utilizes the network; therefore, they might have to add
18 facility. I had not considered that point, but he's
19 accurate in that.

20 Q. That's the only point he was making?

21 A. That was the only point that was different
22 than the original conversation we had.

23 COMMISSIONER CRUMPTON: Thank you.

24 ALJ ROBERTS: Questions, again, based on
25 questions from the bench, Small TelCo Group?

1 MR. ENGLAND: No thank you.
2 ALJ ROBERTS: Public Counsel?
3 MR. DANDINO: No questions, your Honor.
4 ALJ ROBERTS: TCG?
5 MS. FORREST: No questions.
6 ALJ ROBERTS: AT&T?
7 MR. DEFORD: None.
8 ALJ ROBERTS: MCI?
9 MR. CURTIS: No questions.
10 ALJ ROBERTS: GTE?
11 MR. STROO: No thank you.
12 ALJ ROBERTS: CompTel?
13 MR. ANGSTEAD: No.
14 ALJ ROBERTS: Southwestern Bell?
15 MR. LANE: None.
16 ALJ ROBERTS: I'm sorry?
17 MR. LANE: No.
18 ALJ ROBERTS: United?
19 MS. GARDNER: No.
20 ALJ ROBERTS: Staff?
21 MS. MCGOWAN: No questions.
22 ALJ ROBERTS: Mr. Johnson?
23 MR. JOHNSON: No.
24 ALJ ROBERTS: Thank you very much. You may
25 step down.

1 MR. JOHNSON: May he be excused your
2 Honor?

3 ALJ ROBERTS: And you may be excused,
4 finally excused.

5 (Witness excused.)

6 _____
7 ALJ ROBERTS: We're at an ideal point to
8 take a break. As I indicated early this morning when we
9 began, this may be a break longer than usual to allow the
10 Commission time for its morning agenda. I would anticipate
11 that we'll probably be off the record for about 20 to
12 30 minutes. I'll say it will be at least 20 minutes and
13 probably around thirty. Any requests or motion for we go
14 off the record?

15 (No response.)

16 ALJ ROBERTS: Hearing none, we're off the
17 record.

18 (A recess was taken.)

19 (Witness sworn.)

20 _____
21 ALJ ROBERTS: Good morning, ladies and
22 gentlemen. We're back on the record after our morning
23 break. Mr. Schoonmaker is on the witness stand.
24 Exhibits 6, 7, and 8, 6HC, 7HC, and 8HC have been marked.
25 Mr. England, if you would like to proceed.

1 MR. ENGLAND: Thank you, your Honor.

2 ROBERT C. SCHOONMAKER, testified as follows:

3 DIRECT EXAMINATION BY MR. ENGLAND:

4 Q. Would you please state your name for the
5 record, please?

6 A. Yes. My name is Robert C. Schoonmaker.

7 Q. And your address, please?

8 A. My business address is 2270 La Montana Way,
9 Colorado Springs, Colorado --

10 Q. Were you --

11 A. -- 80918.

12 Q. I'm sorry. By whom are you employed and in
13 what capacity?

14 A. I'm the vice president of GVNW
15 Inc./Management, a consulting firm that specializes in
16 working with small telephone companies.

17 Q. And on whose behalf are you testifying
18 today?

19 A. I'm testifying on behalf of a number of
20 small companies that are shown on my Schedule RCS-1 as part
21 of my direct testimony, Exhibit No. 6.

22 Q. Okay. Let me turn you to several exhibits
23 that I understand have been marked for purposes of
24 identification and have you identify them. As I
25 understand, Exhibit No. 6 is your prepared direct

1 testimony?

2 A. That's correct.

3 Q. And Exhibit 6HC is the highly confidential

4 schedule entitled RCS-2 attached to that direct testimony?

5 A. Yes. It's Revised Schedule RCS-2.

6 Q. Thank you. Exhibit No. 7 is your prepared

7 rebuttal testimony in this case?

8 A. That's correct.

9 Q. And Exhibit 7HC is highly confidential

10 Schedule RCS-3 attached to your rebuttal testimony?

11 A. That's correct.

12 Q. Exhibit 8 is your prepared surrebuttal

13 testimony. Is that correct?

14 A. That's correct.

15 Q. And Exhibit 8HC is a page 10 from that

16 surrebuttal testimony containing some highly confidential

17 information. Is that correct?

18 A. It's information that we have identified as

19 such, yes.

20 Q. Turning your attention to the prepared

21 testimonies, direct, rebuttal, and surrebuttal, do you have

22 any changes or corrections that you wish to make at this

23 time?

24 A. Yes, I do. Several of them. In my direct

25 testimony, Exhibit No. 6, on page 10, at the top there's a

1 boxed schedule. In the third column of that, the third
2 line down where it says "normal," that should say "normal
3 toll," T-O-L-L.

4 On my rebuttal testimony, Exhibit No. 7 --
5 actually in exhibit -- in Exhibit 7 on Schedule RCS-3,
6 page 2 at the bottom there are a series of asterisks or
7 pound signs, I guess it is, and those should be replaced by
8 the number minus \$2,212,365.

9 On my surrebuttal testimony, Exhibit No. 8,
10 on page 2, line 21, Ms. Meisenheimer's name is misspelled
11 and should be spelled as it is on line 19.

12 On page 3, line 10, towards the right-hand
13 side of the page there should be a space between "one" and
14 "plus."

15 And on line 19 the word "terminated" near
16 the end of the line should be replaced with "recorded."

17 On page 7 on line 17 near the right-hand
18 side, the word "if" should be inserted between "happen" and
19 "its."

20 And on line 18 the word "is" should be
21 inserted between "decision to."

22 On line 19 towards the middle of the line
23 the word "A" should be inserted between "to" and "local."

24 On page 17, line 20, the bracket in front
25 of the question mark should be eliminated.

1 On page 21, line 7, towards the right-hand
2 side the word "companies" should have an apostrophe after
3 it to be possessive.

4 And on page 23, line 21, towards the
5 right-hand side between "specific" and "request" the word
6 "verbal" should be inserted. And that's all.

7 Q. Thank you. With those revisions or
8 corrections in mind, is the information that is contained
9 in Exhibits 6, 6HC, 7, 7HC, 8, and 8HC true and correct to
10 the best of your knowledge, information, and belief?

11 A. Yes.

12 MR. ENGLAND: Thank you, sir. I have no
13 other questions and would tender the witness for
14 cross-examination and offer the Exhibits 6, 6HC, 7, 7HC, 8,
15 and 8HC.

16 ALJ ROBERTS: Any objection to the
17 admission of those exhibits?

18 (No response.)

19 ALJ ROBERTS: Hearing none, 6, 6HC, 7, 7HC,
20 and 8, 8HC will be admitted in the record.

21 (EXHIBIT NOS. 6, 6HC, 7, 7HC, 8, AND 8HC
22 WERE RECEIVED IN EVIDENCE.)

23 ALJ ROBERTS: I believe this witness first
24 goes to Mid-Missouri Group.

25 MR. JOHNSON: No questions.

1 ALJ ROBERTS: Public Counsel?

2 MR. DANDINO: Thank you, your Honor.

3 CROSS-EXAMINATION BY MR. DANDINO:

4 Q. Good morning, Mr. Schoonmaker.

5 A. Good morning.

6 Q. Just a few questions. The COS applies to
7 rural customers primarily. Is that correct?

8 A. It's not available in the metropolitan
9 areas of St. Louis, Kansas City, and Springfield. That's
10 correct.

11 Q. In those areas the MCA program is
12 available?

13 A. That's correct.

14 Q. Would the same objections of the parties in
15 this case to two-way COS that they raised with regard to
16 two-way -- continuation of two-way COS apply equally to the
17 MCA?

18 A. I'm not sure exactly which objections
19 you're referring to, but some of them would not because the
20 compensation in regards to MCA is different. And, in fact,
21 under the Commission's order that established MCA service,
22 there is no intercompany compensation associated with MCA.
23 It's simply each local exchange company involved is
24 providing their portion of the service both on the
25 originating and terminating side, and there is no exchange

1 of compensation at this time at least.

2 Q. Which objections would apply to the MCA?

3 A. Well, again, thinking Southwestern Bell has
4 objected to the service because its COS is tariffed as a
5 toll service, that one would not apply because MCA is
6 tariffed as a local service.

7 Southwestern Bell and others have objected
8 because of the two-way nature of COS. MCA is a two-way
9 service. As to whether they object to MCA as a two-way
10 service, I guess you would have to leave it to them to
11 decide. I'm not --

12 Q. Perhaps in fairness to you that question
13 was much too broad, and I'll try to at least pare it down.
14 Let's just talk about two-way service.

15 A. Okay.

16 Q. The two-way service. And the return call
17 on MCA, the customer doesn't pay a toll. Is that correct?

18 A. That's correct.

19 Q. So it would operate the same as COS?

20 A. It is a two-way service, yes.

21 Q. In your testimony you describe the two-way
22 COS service, the price for it, as being premium service.

23 What do you mean by that?

24 A. I don't remember exactly the page, but I
25 believe I was referring to the Commission's order in

1 TO-92-306, I believe, is the case number.

2 Q. That's correct.

3 A. And it was the Commission that referred to
4 it as a premium service.

5 Q. Okay. Do you see any problem with the
6 customer's orientation toward 800 numbers as being toll
7 free as interfering with the use of 800 numbers for COS?

8 A. I see some advantages and some
9 disadvantages. In terms of their perception that it's a
10 toll free number to the extent that that were used for the
11 return calling, which under the 800/888 number proposal
12 would also be toll free, that would be an advantage.

13 Many of the 800 numbers in the country are
14 nationwide in scope, and I can call anywhere in the United
15 States, in fact, probably anywhere in the North American
16 numbering plan to 1-800-Holiday and get Holiday Inn. And
17 many of the 800 numbers that customers are most familiar
18 with are available on a nationwide basis. That's not true
19 of all 800 numbers. There are a variety of ways that 800
20 service can be purchased, and those services can be limited
21 to statewide offerings and less than statewide offerings.

22 And in this case the fact that it would be
23 limited to a single exchange, to a target exchange, would
24 be somewhat unusual, and customers, until they got used to
25 that, might find that somewhat confusing.

1 Q. And especially if someone outside of the
2 target exchange called and would incur a toll charge?

3 A. Well, they wouldn't incur a toll charge, I
4 don't believe. My belief is the way that 800 is
5 provisioned is that in the databases that are used to
6 provision 800 service, that the specific restrictions are
7 inherent in those databases, and there would be an
8 intercept come on; and they would be told that that's not a
9 valid number for that area.

10 Q. Oh. So if I was making a call, then, it
11 would just stop the call rather than bill me, and I would
12 get something on my bill?

13 A. That's my understanding of the 800 system,
14 that it would -- the call would not be completed if it were
15 being made from an unauthorized area.

16 Q. And you don't see any problem about the
17 exhaustion of 800/888 numbers being increased with the use
18 of these numbers for COS?

19 A. Well, as I indicated --

20 MR. STROO: Your Honor, I think I'd object
21 that this is getting to be friendly cross at this point. I
22 don't know if we're allowing friendly cross in this
23 proceeding or not. My assumption is we're not, but this is
24 getting to be pretty friendly cross at this point.

25 MR. DANDINO: Well, the only thing I'll

1 say, your Honor, is in our rebuttal testimony we raised
2 some questions about reservations about using 800 numbers.

3 ALJ ROBERTS: Overruled, and especially I
4 think inasmuch as it's a W docket and we're trying to get
5 as much information as we can without encompassing the
6 whole world. Go ahead, Mr. Dandino.

7 BY MR. DANDINO:

8 Q. Just that question.

9 A. In my rebuttal testimony I indicated that
10 on a national basis the seventeen to 18,000 numbers that
11 would be required didn't seem to be a significant amount
12 with the numbers that Ms. Bourneuf had provided in her
13 direct testimony, I guess, about the national daily
14 allocation that would -- or monthly allocation that would,
15 on a national basis, be less than a day's worth of
16 allocation and shouldn't be a significant problem on a
17 national basis.

18 In Ms. Bourneuf's rebuttal testimony and
19 perhaps somewhere in the surrebuttal there's some
20 discussion about Southwestern Bell's specific allocation
21 and concerns that the numbers that they have available,
22 that it would take several months worth of those numbers to
23 accommodate the 18,000 numbers. That is somewhat of a
24 concern, and it may be that the solution to that, if the
25 Commission wants to pursue the 800/888 number proposal, is

1 to go to the FCC and ask for a special allocation of
2 numbers so that the plan could be accommodated.

3 Q. In order for the Commission even to do
4 that, the FCC has to approve it, though?

5 A. I believe that's the place where they'd
6 ultimately have to go. It may be that there's a number
7 administrator that could be gone to first. If the number
8 administrator did it, they wouldn't have to go to the FCC.
9 I would expect the quickest way to get it resolved would be
10 to go to the FCC for a special allocation.

11 MR. DANDINO: That's all I have, your
12 Honor.

13 ALJ ROBERTS: TCG?

14 MS. FORREST: No questions.

15 ALJ ROBERTS: AT&T?

16 MR. DEFORD: No questions, you Honor.

17 ALJ ROBERTS: MCI?

18 MR. CURTIS: No.

19 ALJ ROBERTS: GTE?

20 MR. STROO: Just a couple, your Honor.

21 CROSS-EXAMINATION BY MR. STROO:

22 Q. The MCA service is a local service, and COS
23 service is a toll service. Isn't that correct?

24 A. That's how they're tariffed, yes.

25 Q. And MCA two-way service is not provisioned

1 in the same way as COS two-way service is provisioned, is
2 it?

3 A. The dialing sequences are -- in some cases
4 are the same on the originating end and in some cases are
5 different. I believe Southwestern Bell has implemented COS
6 in its originating exchanges on a seven digit dial basis.
7 MCA is dialed on a seven digit dial basis. Most of the
8 other companies have implemented the originating side of
9 COS on a one-plus basis.

10 In the case of the terminating side, all of
11 COS, the return calling is dialed on a one-plus basis, and
12 MCA in virtually all areas is dialed on a seven digit
13 basis. I'm not sure if we still have those
14 electromechanical offices over in the Kansas City area that
15 aren't completely replaced. And there were some special
16 dialing procedures that were associated with those that may
17 involve one-plus in certain cases, although I don't
18 remember the specifics of that.

19 So there -- in terms of the way they go
20 over the network, COS calls in both directions are being
21 recorded. In most cases, to my knowledge, MCA calls are
22 not being recorded. In terms of flowing over the network,
23 they go over the same kinds of network facilities that,
24 depending on the companies involved, may involve them
25 transcending multiple companies' facilities or maybe a

1 single company's facilities.

2 Q. The problems that exist in providing
3 two-way COS in a one-plus equal access environment do not
4 exist for two-way MCA service, do they?

5 A. As long as MCA remains a local service that
6 is not required to be pre-subscribed, that's the case.
7 There was some issues raised, I believe, in one of the
8 cases before the Commission earlier this year as to whether
9 MCA service, in fact, might have to be, under certain FCC
10 rulings, provided on a one-plus basis and available for
11 pre-subscription. If that turned out to be the case at
12 some time, then there would be some of the same problems.

13 MR. STROO: No further questions.

14 ALJ ROBERTS: CompTel?

15 MR. ANGSTEAD: No questions, your Honor.

16 ALJ ROBERTS: Southwestern Bell?

17 MR. BUB: Thank you, your Honor. We have
18 some questions.

19 CROSS-EXAMINATION BY MR. BUB:

20 Q. Good morning, Mr. Schoonmaker.

21 A. Good morning, Mr. Bub. And how are you?

22 Q. I'm fine. Thank you. Yourself?

23 A. I'm doing all right.

24 Q. I'd like to take you back to some of the
25 history you provided in your direct testimony of COS.

1 A. Okay.

2 Q. Starting about page 5 you talk about case

3 No. TO-87-131.

4 A. Yes.

5 Q. That's the docket in which the LEC industry

6 filed the joint recommendation, isn't it?

7 A. There was a joint recommendation filed, my

8 recollection was, after the Commission's initial order

9 establishing the service. The Commission passed back to

10 the industry the issue of how intercompany compensation

11 should be determined, and I believe there was a joint

12 recommendation that was filed in regards to intercompany

13 compensation.

14 Q. And that recommendation was named the

15 extended local calling scope service, wasn't it?

16 A. We're talking about two different things.

17 Q. Okay. Earlier -- wasn't that the first LEC

18 industry recommendation?

19 A. There was an extended local service that

20 was proposed by a number of the parties. I don't remember

21 whether that was the whole LEC industry or not, and my

22 participation early in that case was limited.

23 Q. It was a proposal made by about forty of

24 the 44 LECs in Missouri. Does that sound about right?

25 A. That sounds about right.

1 Q. Okay. And if we can just talk about that
2 recommendation, that was a service that was proposed to be
3 a local service, wasn't it?

4 A. I don't recall.

5 Q. It was a proposal under which the PTCs
6 would collect no toll. Is that correct?

7 A. I'm sorry. I don't -- it's been too long
8 since that one was proposed, and, again, at the time I was
9 working for Fidelity Telephone Company and wasn't
10 representing those companies. And I'm not -- I don't
11 recall that.

12 Q. Okay. If I can refresh your recollection
13 with the Commission order which describes those proposals,
14 would that help you a little bit?

15 MR. ENGLAND: Objection. If he doesn't
16 recall, he doesn't recall. If he doesn't remember, he
17 doesn't remember. I don't think you can refresh something
18 he doesn't know in the first place.

19 MR. BUB: Well, I think he didn't recall.
20 That's different than not knowing. If you don't recall it,
21 you can refresh your recollection.

22 MR. ENGLAND: If it's in the Commission's
23 order, the order says what it says. I think to short
24 circuit the cross-examination, they can brief that.

25 ALJ ROBERTS: Well, if you want to -- if

1 you've got a copy of the order, Mr. Bub, and you want to
2 hand it to the witness and ask him for some opinion or
3 response to that, you may certainly do that. You can
4 approach the witness to do so. Mr. Johnson?

5 MR. JOHNSON: There were all sorts of
6 proposals back and forth in these various dockets. I
7 question the relevance and materiality of the proposal as
8 opposed to an actual ordered and approved service that
9 might explain the underlying history. I don't think the
10 proposals of the parties of those old dockets are relevant
11 and material at this juncture in this case.

12 MR. BUB: I think it is --

13 ALJ ROBERTS: Let me just say this,
14 Mr. Bub. Allow me to cut you off, if I may. We're
15 probably not concerned about what the Commission considered
16 prior to now except as it may relate to a solution to the
17 problem before the Commission now.

18 MR. BUB: Your Honor, we wouldn't have
19 any -- just to short circuit this, if we could, just have
20 the order admitted into evidence, or if the Commission
21 would be willing to take judicial notice of it, that would
22 shorten the process.

23 ALJ ROBERTS: The Commission can certainly
24 take notice of its own orders, and if you're referring to
25 the final order in TO-92-306 --

1 MR. BUB: 87-131.

2 ALJ ROBERTS: 87-131. That's fine. We'll

3 do that.

4 MR. BUB: The point I'm trying to get out,

5 and it is a public order, that the Small Telephone

6 Companies and the LECs proposed -- made a proposal that

7 this service would be a local service --

8 ALJ ROBERTS: Certainly.

9 MR. BUB: -- as a predecessor to COS.

10 MR. ENGLAND: May I inquire --

11 ALJ ROBERTS: And you're talking about the

12 report and order?

13 MR. BUB: Yes.

14 ALJ ROBERTS: Yes, Mr. England?

15 MR. ENGLAND: I'll be honest. My memory is

16 very fuzzy, and it's getting worse day by day. But may I

17 inquire of counsel whether or not that proposal contained

18 any of the boilerplate language that sometimes exists in

19 stipulations and agreement and says by agreeing to this

20 none of the parties are bound for ratemaking purposes and

21 other?

22 ALJ ROBERTS: Well, the order -- I think

23 the order speaks for itself, and we -- I'm not even sure

24 technically that we have to in the hearing take judicial

25 notice of our orders. I think the CSR says we know what's

1 in all of our case files and in all of our orders. And,
2 you know, as I said the first morning, I went back and
3 reviewed, reread those, and I'm sure we'll look at them
4 again. So I mean, I think 92-306 and 87-131 are going to
5 be discussed if you look at what to do with the 97-333.

6 MR. BUB: Your Honor, I'm okay with moving
7 on.

8 ALJ ROBERTS: Thank you. I'm okay with
9 that too. If there were objections hanging out there,
10 they're overruled.

11 MR. ENGLAND: If you're okay, I'm okay.

12 ALJ ROBERTS: Thank you. Mr. Bub?

13 BY MR. BUB:

14 Q. If we could go back to one more point in
15 87-131, the Commission in that case directed the parties
16 to, as you said, propose a different -- or some type of
17 intercompany compensation plan. Is that correct?

18 A. That is correct.

19 Q. And what the parties came up with was the
20 revenue sharing plan?

21 A. Yes, which was subsequently revised into
22 the revised revenue sharing plan.

23 Q. Okay. And both of those revenue sharing
24 plans basically split the COS revenue equally among the CO
25 providers, the telephone companies that provided service on

1 that COS route. Is that correct?

2 A. That was my recollection on a flat rate
3 basis, not a usage basis.

4 Q. And there was no toll paid by the COS
5 subscribers?

6 A. The COS subscribers paid a --

7 Q. COS rate?

8 A. Yeah. They paid one of three different COS
9 rates, as is referenced on page 6 of my direct testimony.

10 The one-way plan was a flat rate. The two-way plan was a
11 different flat rate. And there was a 50 percent discount
12 in the toll rates with a \$4 per month charge that -- in
13 terms of how people tariff those, I believe Southwestern
14 Bell tariffed that as a local service. I know our clients
15 that were involved in that tariffed that as a separate and
16 distinct tariff, not part of either the toll or the local
17 tariff. And I honestly don't remember what GTE and United
18 did when they tariffed it.

19 Q. It's fair to say that there was no access
20 paid for that traffic?

21 A. That's correct.

22 Q. And it was a specific provision of that
23 plan that, where a LEC experiences a net cash gain from
24 providing COS, that LEC would share its gain with the LECs
25 experiencing a net cash loss for providing COS?

1 A. That sounds correct.

2 Q. And there's a very detailed procedure under

3 that plan for calculating these gains and losses?

4 A. That's correct.

5 Q. And as you indicated, the parties later

6 amended that original revenue sharing plan, which resulted

7 in the revised revenue sharing plan?

8 A. That's correct.

9 Q. And the structure was similar, just

10 different method of calculating those gains and losses?

11 A. That's my recollection.

12 Q. And that revised revenue sharing plan also

13 was approved by the Commission?

14 A. Yes. I believe so.

15 Q. And the parties operated under this revised

16 revenue sharing plan for a couple of years?

17 A. Something like that.

18 Q. And during that period, the secondary

19 carriers providing COS experienced a revenue loss, a

20 revenue shortfall?

21 A. I honestly don't remember that.

22 Q. Okay. In the next docket, TO-92-306, it

23 was a Small Telephone Company's recommendation in that case

24 that the Commission completely eliminate COS, wasn't it?

25 That was one of their proposals?

1 A. That's a possibility. I don't actually
2 remember.

3 Q. An alternative was they would grandfather
4 it to existing customers?

5 A. I'll accept that subject to check.

6 Q. Both of those subject to check?

7 A. Yes.

8 Q. Okay. And if neither of those alternatives
9 were acceptable to the Commission, you propose that --
10 Small Telephone Companies proposed raising the COS rates.
11 Is that correct?

12 A. I'll accept that subject to check.

13 Q. There were two proposals made by the Small
14 Telephone Companies, two rate proposals. One would have a
15 residence rate of either \$20 or \$25. Can you accept that
16 subject to check as well?

17 A. Yes.

18 Q. And the business rate would have, under the
19 two plan alternatives, either a \$42 rate or a \$52 rate?
20 Can you accept that as well?

21 A. Yes. Subject to check.

22 Q. In that same docket, 92-306, another
23 alternative proposed by the Small Telephone Companies was
24 to change the intercompany compensation method. Do you
25 recall that?

1 A. Yes.

2 Q. And Small Telephone Companies proposed that
3 they be compensated based on access charges?

4 A. Correct.

5 Q. And you performed an analysis in your
6 testimony in that case, didn't you, where you acknowledged
7 that under your analysis there would be an overall revenue
8 gain to your companies, and sometimes those gains would be
9 substantial?

10 A. Yes. There were a few cases, I believe,
11 where there were losses related to MCA.

12 Q. But with respect to COS --

13 A. With respect to COS there would have been
14 gains had the Commission not adopted the true-up procedure
15 which we proposed.

16 Q. It was your testimony in that case that it
17 wasn't appropriate that the companies obtain such a gain as
18 a result of implementing COS. Is that true?

19 A. Probably.

20 Q. I'd like to read you a couple of lines from
21 your testimony, and I'm going to ask you if that's still
22 your company's position. You say that "We do not believe
23 that it's appropriate for any company to receive a gain as
24 a result of implementing these services. On the other
25 hand, it's also not appropriate for companies to suffer

1 overall losses from implementing these services."

2 A. Mr. Bub, I haven't read my testimony in
3 that case, and sometime I'd like to see it in context of
4 the page or two before, if you've got it.

5 Q. Absolutely. I'm going to hand you page 18,
6 19, and 20. The quote I was reading from was on 19.

7 A. Okay. Now, what was your question?

8 Q. The question I had, is it still Small
9 Telephone Companies' position that it's not appropriate for
10 any company to receive a gain as a result of implementing
11 COS services, and on the other hand, it's also not
12 appropriate for another company to suffer an overall loss?

13 A. That was -- that's -- you know, that was
14 our position in that case, and we would generally subscribe
15 to that.

16 Q. Okay. That's all I was wanting to know.
17 And that pretty much has been the Commission's position
18 throughout these cases, hasn't it?

19 A. Pretty much.

20 Q. Was that --

21 A. Excuse me just a minute.

22 Q. Sure.

23 ALJ ROBERTS: Mr. Schoonmaker, do you need
24 a break?

25 THE WITNESS: No. I just need to make a

1 note here.

2 ALJ ROBERTS: We would rather you do that
3 on your own time.

4 THE WITNESS: Okay.

5 ALJ ROBERTS: Thank you.

6 BY MR. BUB:

7 Q. It was for that reason that you in your
8 testimony on behalf of the Small Telephone Companies
9 proposed that effects of implementing COS routes be
10 studied, you know, both before -- six months before a route
11 would be introduced and six months after?

12 A. That was the true-up proposal that we
13 proposed, yes.

14 Q. And based on that study, response would be
15 made to PTCs, and there would be reductions in access based
16 on your studies?

17 A. That's correct.

18 Q. So the idea was to see how much a COS route
19 stimulated -- implementing COS stimulated usage?

20 A. Yes.

21 Q. Okay. And it was the expectation at that
22 time that new routes would increase usage?

23 A. It was the expectation that in most of them
24 there would be increased usage.

25 Q. Okay. And all secondary carriers for COS

1 routes actually made those adjustments?

2 A. Most of them have been made. There are a
3 few of them that haven't been yet.

4 Q. Okay. And those that have made
5 adjustments, it was a one-time adjustment?

6 A. That's correct.

7 Q. And since those adjustments were made for
8 some companies, they introduced new COS routes?

9 A. There have been COS routes introduced
10 subsequent to that, yes.

11 Q. And no further adjustments were made?

12 A. That's correct. Under the combination of
13 the Commission's order and the implementation committee,
14 which met for several months under the Commission's
15 direction in regards to implementing COS, it was decided
16 that those adjustments would only apply to the initial list
17 of routes, and that that would not be done for subsequent
18 routes.

19 Q. But you would agree with me that on the
20 subsequent routes those new routes would also stimulate
21 usage?

22 A. Yes.

23 Q. And a result of this increased usage is
24 increased access charges paid by COS providers, the PTCs?

25 A. Yes.

1 Q. Increased access payments to the secondary
2 carriers?

3 A. Yes.

4 Q. So as additional COS routes were added,
5 secondary carriers received a gain in access revenue from
6 that stimulation?

7 A. Yes.

8 Q. And on those routes the PTCs lost revenue
9 from toll which was replaced by COS revenue?

10 A. Yes. And gained expenses.

11 Q. Yes. And those expenses didn't cover the
12 cost of providing COS?

13 A. No. Expenses generally don't.

14 Q. Revenues don't cover the costs?

15 A. Why don't you reask your question?

16 Q. That the revenues from COS didn't cover the
17 costs?

18 A. That's correct.

19 Q. I'd like to take you to page 6 of your
20 rebuttal testimony, please. On that page in response to a
21 question, "Was cost a primary factor in establishing COS
22 rates?" you say no, that they were not established related
23 to the cost of providing the service.

24 You've just told us that COS revenue does
25 not cover the cost of providing the service. Is that

1 right?

2 A. I guess the line of questioning was that
3 the new revenues didn't cover the access expenses. It
4 didn't necessarily address Southwestern Bell's expenses for
5 their portion of the provision.

6 Q. Okay. Maybe a better way to do this would
7 be to go to a schedule you have to your rebuttal
8 testimony. I think it's Schedule RCS-3.

9 A. Okay.

10 Q. Page 1. I believe that's a highly
11 confidential schedule.

12 A. Except for the totals, yes.

13 Q. The totals are not? That was my question.
14 We could go through those tables a little bit. The first
15 table at the top of one of three shows the compensation
16 that the secondary carriers receive from the primary toll
17 carriers in relation to the primary toll carriers'
18 provision of COS?

19 A. That's correct.

20 Q. So what that is, it shows by company how
21 much access revenue both on the originating and terminating
22 side each small carrier -- small company received with
23 regard to COS?

24 A. That's correct.

25 Q. And that's total for each company, and then

1 all those totals are totaled at the bottom to a figure

2 that's not highly confidential?

3 A. That's correct.

4 Q. And that figure is 4,149,853?

5 A. Yes.

6 Q. Your next table shows the COS revenue

7 received by the PTCs for providing the COS?

8 A. That's correct.

9 Q. And I take it that the totals at the bottom
10 are not highly confidential?

11 A. That's correct.

12 Q. So the total revenues that all the PTCs
13 received in providing COS to customers is 1,255,174?

14 A. That's to the secondary carrier customers,
15 not necessarily to all customers. It does not include any
16 of the GTE, Southwestern Bell, or United.

17 Q. Okay. So on the COS routes, if you divide
18 the access expense, the 4 million figure, either revenue
19 received by the PTCs, you come up with about 3.3 to
20 1 ratio?

21 A. 3.31.

22 Q. And what that means is, for every dollar in
23 revenue received by a PTC from providing COS to end users,
24 they pay out \$3.31 cents in access expense to the secondary
25 carriers?

1 A. That's correct.

2 Q. I'd like to move on a little bit to page 20

3 of your surrebuttal testimony. There you respond to a

4 question, "Were you involved in the drafting and review of

5 the COS tariff?" You say, yes; you participated in the

6 implementation task force that helped prepare for the

7 implementation of COS, OCA, and MCA?

8 A. That's correct.

9 Q. Okay. You participated in -- what you're

10 saying is you participated in the drafting of the COS

11 tariff or assisted?

12 A. I helped review them. I believe the COS

13 tariff -- I was looking at some of my notes the other day

14 and I think I actually -- those notes show that GTE

15 actually drafted the first copy of the COS tariff, but it

16 was reviewed two or three or four times by the whole

17 group. And I participated in that review.

18 Q. Okay. You're part of that committee?

19 A. Yes.

20 Q. Did that committee also review billing

21 issues?

22 A. Yes.

23 Q. And you participated in those?

24 A. Yes.

25 Q. Were minutes kept of those meetings?

1 A. Yes.

2 Q. Okay. Do you recall those minutes showing
3 that agreements were reached on applying COS to -- and the
4 other services that you discussed in those committee
5 meetings to multi-line customers?

6 A. I went back and looked at those minutes in
7 the last few days, and I agree it was discussed. I don't
8 recall in my review of that that I saw that specifically in
9 the minutes, anything about the application of multi-line
10 hunt groups to COS customers.

11 Frankly, my recollection is that when that
12 was discussed, I antic-- I was surprised that the language
13 that's not in the MCA -- or that is in the MCA tariff was
14 not included in the COS tariff.

15 Q. Is it your recollection that minutes would
16 reflect that, with regard to COS, there's an agreement that
17 all lines in a hunt group must have the same service and
18 that they're to be billed on a per line basis?

19 A. I guess I'd like to see the copies of the
20 minutes, because I didn't see that in my copy when I
21 reviewed them recently. But --

22 MR. BUB: Your Honor, would it be okay if I
23 approached the witness?

24 ALJ ROBERTS: Yes.

25 THE WITNESS: Yes. It is there in the

1 minutes, and I missed that in my review.

2 BY MR. BUB:

3 Q. I just have a few more questions. Is it
4 correct that the secondary carriers are the ones with the
5 direct relationship with end user customers that order COS?

6 A. In their exchanges, yes.

7 Q. And so that the way it works is a customer
8 and a secondary carrier exchange that want COS would order
9 it from the secondary carrier?

10 A. Yes.

11 Q. And when the secondary carrier takes that
12 order, it has -- the secondary carrier has to determine
13 whether that customer's use is or is not consistent with
14 the tariff of the service?

15 A. Yes.

16 Q. And it's also true that the PTCs rely on
17 the secondary carriers to enforce the tariff and to make
18 sure correct rates are charged to the end user?

19 A. Yes. And they do some reviews of their own
20 of that in the audits that are done of the PTC plan.

21 Q. Okay.

22 A. At least I assume they do. They come out
23 and audit.

24 Q. And that's their responsibility?

25 A. The SCs have a responsibility to apply the

1 tariff as they understand it. The PTCs have a
2 responsibility to review that.

3 Q. And the genesis of that is PTC to SC
4 contracts. Aren't there provisions under which the
5 secondary carrier agrees to apply the primary toll
6 carrier's tariffs?

7 A. I don't recall that position specifically,
8 but it may be there.

9 Q. Would you agree that if a secondary carrier
10 doesn't maintain COS tariffs, it's difficult to meet its
11 duties to enforce that tariff?

12 A. It certainly would be more difficult.

13 Q. Okay. Is it your experience with
14 Southwestern Bell that when it implements a new, say, toll
15 tariff, for example, that the secondary carrier's customers
16 could order, isn't it your experience that Southwestern
17 Bell routinely sends out copies of that tariff to all the
18 secondary carriers?

19 A. Yes. And to their billing companies.

20 Q. Okay. And at least with respect -- and
21 that was done with the COS tariff, wasn't it?

22 A. I'm sure it was.

23 Q. And didn't you also receive a copy of the
24 tariff from Southwestern Bell at the time?

25 A. I believe I did.

1 MR. BUB: Those are all the questions I
2 have, Mr. Schoonmaker. Thank you.

3 ALJ ROBERTS: United?

4 MS. GARDNER: Thank you.

5 CROSS-EXAMINATION BY MS. GARDNER:

6 Q. Mr. Schoonmaker, in your testimony you
7 discuss the 800/888 proposal, and I'm a little bit confused
8 about whether you view that proposal as automatically
9 applying to preserve two-way COS. Or is it a case where
10 COS would convert to one-way, and then those that wish to
11 subscribe to the service for the two-way applies? Could
12 you clarify that?

13 A. I guess I didn't speak specifically to
14 that. Our intention was that -- and our understanding of
15 the proposal as it was made by the Commission would be that
16 it was a -- continued to be a two-way service and that the
17 800 would apply in all cases, and it would continue to be a
18 two-way service only. I believe Ms. Bourneuf suggested in
19 her testimony that it might be either.

20 Q. So under your belief it would
21 automatically -- the 800 or 888 numbers would automatically
22 be assigned to a COS subscriber?

23 A. Yes.

24 Q. Do you agree with Mr. Jones that he is
25 unaware of any technical impediment to a secondary carrier

1 providing 800 service?

2 A. 800 calls originate in their exchanges all
3 the time and are completed. When you say provide an 800
4 service, I doubt that there are many of the secondary
5 carriers that have allocations of 800 numbers, because they
6 haven't been in that business. They rely on other
7 companies' networks to do the database dips and so forth in
8 some cases.

9 But, you know, could they provision it
10 completely on their own? I'm not sure. But with the
11 provisions that are in place, generally they can make the
12 calls complete.

13 Q. Is that a difficult process to get an 800
14 allocation, or is it just a matter of ordering it?

15 A. I don't know. I've never tried to do that
16 for any of my clients.

17 Q. In your surrebuttal testimony at page 7,
18 lines 19 through 21, you state that "It will take time and
19 effort to implement a proposal to change COS to local
20 service with a terminating compensation system."

21 Do you have any estimate as to how much
22 time and effort that might take?

23 A. I haven't tried to look at that in detail.
24 Some of the things that I point out in my testimony, such
25 as the addition of another jurisdictional access rate

1 schedule in the regular CABS billing system, could take a
2 considerable amount of time. But I haven't explored that
3 in any detail. If I had to guess, I'd guess somewhere
4 between 6 and 18 months.

5 Q. Okay. So an outside guess would be
6 18 months?

7 A. Yeah. But that's a guess. I mean, there's
8 some other times when I have thought things would be easier
9 than they would. In the implementation of COS there were
10 at least some LECs that said there were going to be extreme
11 problems with doing that and very long time frames in order
12 to accomplish that, and that could be the case here.

13 Q. But based on your best estimate today, you
14 would think that it would be reasonable that that could be
15 worked out by February 1999, just approximately?

16 A. Depending on how long it took to get an
17 order, if ordering some change, if that's what the
18 Commission decided they wanted to do.

19 Q. So you would think that it could be done by
20 February of 1999?

21 A. I think in most cases it could. I mean --

22 Q. Now, you would agree with me that COS is
23 designed today to address a community of interest need
24 that's perceived to be unmet elsewhere. Is that correct?

25 A. Yes. One that in many other cases is met

1 by services such as EAS and MCA.

2 Q. So you're not suggesting that because one
3 customer perhaps has a community of interest with Columbia,
4 let's just say Jefferson City and Columbia, that COS would
5 automatically --

6 A. Well, the Commission's established calling
7 criteria would have to be met before a customer or before a
8 community is eligible for COS. And I nor anyone else has
9 proposed any changes in those criteria.

10 Q. Now, that criteria doesn't necessarily
11 correlate to a high percentage take rate of COS, does it?

12 A. No. Not necessarily.

13 Q. In your testimony, your direct testimony,
14 you indicated that there is about 5.75 hours of return
15 calling. Do you recall saying that?

16 A. Yes.

17 Q. Do you know what that number would be if
18 you took out internet, if you remove the internet return
19 calling?

20 A. No, I don't specifically. The data that I
21 have, which is primarily from April 1996, doesn't have
22 internet calling either on the originating or terminating
23 side broken out of it.

24 Q. Okay. Do I take it too that that data
25 would not show you whether it's -- whether the minutes of

1 use and the return calling are generated by two customers
2 or a hundred?

3 A. That's correct. It's not customer
4 specific.

5 Q. Now, let me just ask you a couple of
6 questions on your highly confidential schedule, but I think
7 I can do it in such a way that it's not generally highly
8 confidential.

9 A. Okay. Which one?

10 Q. In your direct testimony. If you think I
11 am getting into something highly confidential, please tell
12 me.

13 A. Sure.

14 Q. But would you agree with me that there are
15 about twice as many routes where the take rate is
16 10 percent or less than there are with a take rate of
17 30 percent or more?

18 A. I haven't calculated. It would take some
19 time to look at that. I don't know.

20 Q. Would you accept that subject to check? Or
21 do you want to take the time? I don't think it would take
22 too much time.

23 A. If I can ask you a question. Have you
24 calculated it?

25 Q. Yes.

1 A. Then I'll accept it subject to check.

2 Q. But I'm a lawyer, so my math skills are not
3 necessarily correct.

4 A. Well, that's two reasons for doing it
5 subject to check.

6 (Laughter.)

7 MS. GARDNER: That's all I have. Thank
8 you.

9 ALJ ROBERTS: Thank you. Looks like this
10 is an appropriate time to break. We'll come back after the
11 lunch break for cross from Staff. And I hope that we will
12 be back on the record at 1:15. Off the record, please.

13 (The noon recess was taken.)

14 ALJ ROBERTS: Good afternoon, ladies and
15 gentlemen. We're back on the record after the lunch
16 break. Mr. Schoonmaker is still on the witness stand and
17 is still under oath, and I believe the witness goes next to
18 Staff.

19 MS. MCGOWAN: Yes. I'm happy to say over
20 lunch we decided that most of the questions have already
21 been answered. Just have a couple.

22 MS. MCGOWAN: I guess I want to go to the
23 board. May I approach the witness?

24 ALJ ROBERTS: Sure.

25 MS. MCGOWAN: Thank you.

1 CROSS-EXAMINATION BY MS. MCGOWAN:

2 Q. Staff had a concern when we were talking
3 about MCA calling services, which is a metro calling plan.
4 You said that it was a two-way service, and I'm just kind
5 of confused. Trying to make circles without running off
6 the page.

7 When you have a metro calling area, for
8 example, like Kansas City and St. Louis, you have your
9 center zone.

10 A. Right.

11 Q. Then you have your tier one and tier two,
12 tier three, tier four, and then tier five. Isn't that
13 correct?

14 A. That's correct.

15 Q. Okay.

16 A. And the calling scopes are that big.

17 Q. That's true. And I don't know if the
18 Commissioner saw the sheet that I gave, which was an
19 example of the different zones in the Missouri, St.
20 Louis -- or I guess I had the Kansas City and Springfield
21 areas. Those tiers are not necessarily circles, but for
22 the purpose of explaining it's much easier.

23 When you were talking about being a two-way
24 calling plan, were you talking about the whole MCA area or
25 the central tiers where the service is mandatory?

1 A. Oh, I may have to review the tariff a
2 little bit, because it's not quite that simple. My
3 recollection is that the customers in the center zone, tier
4 one and tier two, can call all the customers in those tiers
5 plus the optional customers out in tier three, four, and
6 five, those that subscribe to MCA.

7 But if you give me a minute, maybe I can
8 find it in the tariff and make sure that I've got that
9 correct.

10 Q. If it would help you, if I can approach the
11 witness, I have a copy of the Commission's report and order
12 in TO-92-306, which sets out the MCA calling pattern. It
13 might be easier than finding it in the tariff.

14 A. Okay.

15 Q. And under that, the way it's set up, is for
16 the center zone -- draw a circle around the center tier,
17 one and two; that is mandatory. They don't have a choice
18 whether to take this service?

19 A. That's correct.

20 Q. It's automatically required. And for the
21 customers of tiers three, four, and five they get the
22 option of whether they want to purchase the extended
23 calling area. And of course, it's different prices,
24 depending on which tier you're in, because you get more
25 access to calls. Is that the way you understand the

1 service as well, I believe?

2 A. That's basically correct.

3 Q. Okay. And in looking at that sheet,
4 basically the people that automatically subscribe, they
5 only get access to their own customers in the three center
6 areas, the center zone, tier one and two, and then the
7 outside customers that actually buy the service; they don't
8 get access to everyone in the outer tiers. Is that the way
9 you --

10 A. Yeah. MCA three subscriber, would be able
11 to call all the MCA central, tier one, two, and three
12 customers and all the MCA four and five subscribers. So it
13 sounds like they can call all the customers in the zones
14 inside them whether or not they're MCA subscribers, but
15 going further out they can only call the MCA subscribers.

16 Q. So would you agree that in the center zone
17 it's truly a two-way service, because they all get to call
18 back and forth freely? But in the outer zones it's more of
19 a reciprocal service, because you have to purchase it to be
20 able to call in.

21 If you don't -- if you're in T zone three,
22 you can't call into the center zone to a subscriber unless
23 you yourself subscribe to the service, which makes it not
24 truly a two-way when you're talking about the full program,
25 if I'm correct.

1 A. Yeah. I guess --
2 Q. We just wanted to show it wasn't truly a
3 two-way service.
4 A. Okay. It's not completely a two-way
5 service.
6 Q. Guess I should -- thank you.
7 A. You probably want that back.
8 MS. MCGOWAN: And Staff has no further
9 questions of the witness.
10 ALJ ROBERTS: Before I do questions from
11 the bench, let me make -- let me give you-all sort of a
12 heads-up on an issue. After this witness, we are going to
13 take the witnesses for GTE out of order, so we will take
14 those up next just in case that changes the way in which
15 you're prepared and you need to change your preparation.
16 So questions from the bench, and then
17 I'll -- Mr. Angstead, do you have a question?
18 MR. ANGSTEAD: ALJ Roberts, we have also
19 had a discussion -- I have discovered after we talked that
20 Mr. Ensrud has to leave this evening also. And so I've
21 gotten from Mr. Dandino permission to move Mr. Ensrud ahead
22 of his witness, if that's okay with everybody else.
23 ALJ ROBERTS: Have you discussed that with
24 the other --
25 MR. ANGSTEAD: Several of them I have, and

1 a couple of them I haven't.

2 ALJ ROBERTS: All right. Maybe we'll take
3 that up at the next break --

4 MR. ANGSTEAD: Okay.

5 ALJ ROBERTS: -- and see how far we get
6 after this witness and both the GTE witnesses today.

7 MR. ANGSTEAD: Okay.

8 ALJ ROBERTS: Questions from the bench, I
9 guess, and then I will come back to redirect as well as
10 cross on questions from the bench.

11 COMMISSIONER CRUMPTON: No questions at
12 this time.

13 ALJ ROBERTS: Commissioner Drainer?

14 QUESTIONS BY COMMISSIONER DRAINER:

15 Q. Good afternoon, Mr. Schoonmaker.

16 A. Good afternoon, Commissioner Drainer.

17 Q. I do have a couple of questions for you.

18 Can you explain, in your testimony -- I believe it was your
19 rebuttal testimony -- you discussed average charges per
20 customer. You talked about revenues. Let me see if I
21 can -- page 4 of your rebuttal testimony.

22 A. Okay.

23 Q. I was just trying to understand some of
24 these revenue flows. You basically say that a customer on
25 an annual basis for COS would pay \$218. Correct?

1 A. Okay. Yes.

2 Q. Which I guess is a little over the sixteen?

3 A. Yeah. It's a mix of the business and

4 residence customers --

5 Q. Okay.

6 A. -- plus any EAS additives that they may

7 have associated with the COS. If a customer has COS into

8 an exchange that has extended area service and there is an

9 additional rate for that such as 30 cents, they would pay

10 \$16.30 for their COS rather than just \$16.

11 Q. Okay.

12 A. There are also a few exchanges that go into

13 the metropolitan areas, particularly the Kansas City area,

14 and they have a higher rate in the metropolitan areas too.

15 Q. Okay. Then you discuss that the

16 originating COS calls that are generated by those

17 customers, you did an estimate of the average access line

18 charge from originating of \$616?

19 A. That would be if those calls had all been

20 made and rated at toll rates, that's an estimate of that,

21 yes.

22 Q. And then back from the target exchange to

23 the petitioning exchange would have been another \$687?

24 A. That's correct. And those numbers that

25 you're referring to relate specifically to the STC and

1 Mid-Missouri Group COS exchanges and not to all of them.

2 Q. All right. Because that was -- my question
3 was, then it wasn't based on -- if I added those two
4 numbers up for an average originating and terminating toll
5 charge, I couldn't really take that times the
6 seventeen-thousand-odd COS customers to get what lost toll
7 revenues were?

8 A. No. You would be better to go to the next
9 paragraph of my testimony where I -- and I guess I don't
10 have the individual customer ones, but I have the total,
11 that there are -- if I look at all 17,600 customers,
12 there's approximately \$3.7 million in COS revenues
13 associated with those customers and their charges. And
14 they generate approximately \$10.6 million in originating
15 toll and about \$7.7 million in return toll. And that's for
16 all the customers, both the small company customers and the
17 large company COS customers.

18 Q. Now, that would be 18.3 million then in
19 toll. Now, is that more than just originating and
20 terminating access? That would be if you were taking total
21 minutes of use?

22 A. That's what the billed toll rates would be,
23 not the access rates.

24 Q. All right. So that's just the lost toll --
25 I mean, revenue, is the 18.3 million?

1 A. It's the -- I sort of hate to say lost
2 toll, because if we were truly billing at a rate that would
3 be \$18.7 million, a lot of those calls wouldn't be made.

4 Q. If they had the right price signals, they
5 would adjust their calling appropriately?

6 A. Yeah. But that's the equivalent toll rate
7 for the calls that are made, both originating and
8 terminating.

9 Q. All right. Would you tell me with respect
10 to the originating and terminating access charges, are
11 terminating access charges generally higher than
12 originating access charges?

13 A. Generally they are.

14 Q. And when we looked at this ratio of
15 terminating to originating, what I understood yesterday in
16 my questions to Mr. Jones was that basically what the small
17 companies are doing is they measure their originating
18 traffic, and they charge their access for originating
19 access based on actuals.

20 A. Okay.

21 Q. And then they use a ratio that's been
22 accepted by all parties to charge for terminating.

23 A. To calculate the terminating minutes upon
24 which the access charges would be applied.

25 Q. And so if there were more access minutes

1 than the one to -- like if the ratio is one to one --
2 A. Okay.
3 Q. -- but in reality it really isn't, if in
4 reality it's three to one, they're still not charging the
5 primary toll carrier for terminating access for more than
6 the one. Right?
7 A. Yeah. Let me put it in a numerical example
8 to make sure we're together.
9 Q. Sure. Okay.
10 A. If a company -- in an exchange there were
11 100,000 originating minutes and the ratio that was being
12 used was one to one, they would bill 100,000 originating
13 minutes and 100,000 terminating minutes. The actual
14 terminating minutes coming in, I think if I understood your
15 example, even if they were 300,000 minutes that were
16 actually coming in, there would still only be 100,000
17 minutes billed.
18 Q. All right. Then without going to specifics
19 on your highly confidential --
20 A. Okay.
21 Q. -- document where you talked about minutes,
22 petitioning to the target and then target to petitioning,
23 would the minutes, petitioning to target, originating --
24 total originating minutes of use?
25 A. Those would be minutes that originate in

1 the petitioning exchange.

2 Q. And then would the minutes from the target
3 to the petition, the terminating minutes?

4 A. They would be terminating minutes in the
5 petitioning exchange.

6 Q. Okay. So the percent from the target to
7 the petitioning, is that really the ratio of T to O,
8 because a hundred percent would be one to one?

9 A. Basically, yes.

10 Q. Okay. And there was discussion about if
11 companies wanted to go to actuals. Have you had any
12 conversations or have you been a party to any discussions
13 with the Small Group to Southwestern Bell to go to actuals?

14 A. I've been in discussions with a number of
15 my clients, not -- well, we have had a couple of
16 discussions. In fact, one of them, I believe, was in the
17 implementation period in the TO-92-306 case about possibly
18 changing from using T/O ratios to using an actual method
19 for that. And I believe Mr. Jones said the other day
20 Southwestern Bell's reaction to that was that, if all the
21 small companies wanted to do that -- and there may have
22 been some other conditions associated with it -- they would
23 find that acceptable. Otherwise, they wouldn't.

24 I am also aware of and have had discussions
25 with my clients, particularly at times when they have

1 implemented equal access and gone to feature D signaling
2 where they can better measure the traffic that's
3 terminating on their trunks that come from Southwestern
4 Bell about changing to billing on an actual basis. And I
5 have been told that they have had discussions with
6 Southwestern Bell about doing that and billing the actual
7 minutes that come over their trunks. And Southwestern Bell
8 has indicated an unwillingness to pay bills on that basis.

9 I'm not specifically aware that any of them
10 have actually rendered a bill to see whether Southwestern
11 Bell would pay it or not, but I know there have been
12 discussions with them. And the reaction that's come back
13 is that, if such a bill were to be rendered, Southwestern
14 Bell would not pay it on that basis.

15 Q. All right. Were you involved in the '92
16 case that set up a current two-way COS --

17 A. Yes.

18 Q. -- and the --

19 A. Excuse me.

20 Q. It's my understanding that after that case
21 there was some type of technical conferences that then
22 worked out their revenue neutrality issues?

23 A. There was an implementation task force, I
24 believe it was called, that involved representatives of
25 virtually all the parties that dealt with a host of issues

1 related to implementing the Commission's order. The
2 Commission had adopted the true-up procedure that we had
3 proposed in concept that I had testified to, but there was,
4 with that issue and another of other things, details that
5 worked out -- that had to be worked out about how that
6 would be accomplished and exactly what would be done.

7 There were issues related to the step
8 offices in the Kansas City area in regards to MCA
9 implementation. There were directory issues. There were a
10 whole lot of issues that task force dealt with.

11 Q. I'm concerned about the revenue
12 neutrality.

13 A. Okay.

14 Q. So let's kind of focus on that. In the
15 92-306 case did the technical group determine after true-up
16 purposes that for revenue neutrality the primary toll
17 carriers were going to lose money on the two-way COS and
18 that they then needed to recapture those revenues from
19 their customers?

20 A. There were actually three services that
21 were implemented at the time, MCA, COS, and OCA. There
22 were access true-ups that the small companies did in
23 relationship to that, that after the appropriate period and
24 the procedure that was developed, would provide a refund
25 for the period of implementation up to when access

1 reductions were made. So at that point in time there would
2 be a neutrality as far as COS and OCA were concerned.

3 There were also issues with the
4 implementation of MCA and the costs associated with that,
5 and I think for the primary toll carriers all three
6 services kind of got mixed together. And there was a
7 revenue neutrality calculation and procedure that the
8 primary toll carriers went through to come back to a
9 revenue neutral position based on the services that were
10 implemented at that time.

11 Q. Who paid for the revenue neutrality? Where
12 were the revenues generated? From whose customers?

13 A. Well, in the case of the primary toll
14 carriers it came from their customers, and those -- I think
15 those impacts were primarily related to -- let me think a
16 minute.

17 Q. You can --

18 A. Well, they could have been related to both
19 MCA and COS and OCA. Probably all three services.

20 Q. But throughout this hearing so far I've
21 heard that for probably all the COS routes that for each
22 \$16 that's captured that there's probably more revenues
23 that are paid out than access. And so, again, if that's
24 when they did the true-up for that service, wouldn't it
25 still be the primary toll carrier's customers then that --

1 I guess I heard Mr. England say yesterday that they allowed
2 for revenue neutrality through discretionary services.

3 A. Yeah. I think that's the course that
4 Southwestern Bell took. I honestly don't remember with GTE
5 and United what rates they may have done that with. And in
6 the overall case part of that was related to COS; part of
7 it may have been related to losses associated with the MCA
8 portion as well.

9 Q. Did the secondary carriers lose any
10 revenues by implementing COS?

11 A. The true-up was to bring the secondary
12 carriers to a revenue neutral position. So they basically
13 would have had no gain or loss based on the initial routes
14 that were implemented for that six month time period that
15 the true-up was calculated on.

16 Q. You also mentioned in your testimony that,
17 if this Commission were to go to calling COS local versus
18 toll, that that's not a simple change. Would you tell me,
19 what do you see as potential problems that would have to be
20 resolved if this Commission were to go to a one-way COS and
21 call it a local service?

22 A. Well, I tried to outline at least some of
23 the billing issues on pages 3 through 7 of my surrebuttal
24 testimony, Exhibit No. 8, I believe it is. And four pages
25 may not be simple.

1 Q. Okay.

2 A. But it's not a simple process. There are
3 issues related to measuring the traffic. We don't have
4 good means in the telephone industry of measuring specific
5 calls at the terminating end. We do a good job at the
6 originating end, because we've had to for billing
7 purposes.

8 At the terminating end we can generally
9 measure calls in detail on a trunk group basis, but to pick
10 individual calls out of a trunk group and say this one's
11 toll, this one's local, this one's COS, this one's
12 wireless, and so forth, we don't do a good job.

13 So at least one of the ways this could be
14 done is the means that I described in my testimony, and
15 that would be by the originating company having to record
16 this data, extract it from their billing systems when they
17 get to the point of billing, so they, in fact, know it's a
18 COS call as opposed to a toll call; and then passing
19 records on that to the terminating company, so that they
20 could then render a bill to the originating company for the
21 amount of service that had been used. And that's not
22 something that we have done in the industry in that level
23 of detail to date.

24 Mr. Bub, I believe, in his opening
25 statement made some comments about we've had EAS for years,

1 but EAS has not been compensated on a per call basis. EMS
2 was a toll service, and it was compensated initially
3 through the toll pools and then on an access basis for a
4 short period of time. When we went to the original COS,
5 which Mr. Bub pointed out, that was treated as a non-toll
6 service. That compensation was on a division of revenues
7 basis rather than on an access minute basis.

8 So these procedures haven't been done
9 before. Parts of them have, but parts of them haven't.
10 And there are simply billing system issues and record
11 passing issues that have to be resolved before that can be
12 done.

13 Q. In your knowledge of other states do you
14 know of any other states that have a service like Missouri
15 COS service?

16 A. I've become aware of in the last six months
17 of about three states that had services with -- similar to
18 COS at least to the extent they were implemented via a
19 billing system option and the kinds of procedures that
20 we're using to do the two-way billing now.

21 There was a service in Georgia, a
22 county-wide calling service that was ordered by the -- or
23 put in the statute by the state legislature where this kind
24 of process was used. I'm aware of a service in Maine and
25 New Hampshire that use similar processes.

1 Q. There have been witnesses, the Staff
2 witness Ms. Smith, and then in surrebuttal a GTE witness
3 and United witness that have suggested to the Commission
4 that we eliminate COS as a mandatory service when we go to
5 intraLATA dialing parity and that exchanges or companies
6 could then offer their own one-way COS. Would you respond
7 to that for me?

8 A. Well, I guess to me the biggest concern
9 that the Commission needs to be aware of in evaluating that
10 kind of proposal is trying to go back in history and look
11 at the reasons why COS was created in the first place.

12 You know, Mr. Bub mentioned in his question
13 this morning and I think it's fairly general knowledge that
14 the COS was not a creation of the industry. It was not
15 proposed by the industry. It was the Commission's response
16 to a lot of public pressure and legislative pressure to try
17 to deal with the issue of interexchange calling along with
18 MCA and OCA. And it's in place now. I mean, there was a
19 lot of pressure then.

20 Part of that pressure admittedly came from
21 the metropolitan areas where MCA service would apparently
22 still be in place and would not be an issue, but there's
23 still -- customers at that time were very vocal and wanted
24 something. Now COS has been implemented. It's in place.
25 Customers have been using it. They like it, and taking it

1 away, that's obviously going to have some very negative
2 kinds of customer reactions, if the Commission simply
3 decides to discontinue the service.

4 Q. But it's one-half a percent of all the
5 Missouri access lines now, and we have other pressures due
6 to intraLATA dialing parity and on the advent of
7 competition. So historically there are things that one
8 must consider. Are there not other issues we must consider
9 in the access environment changes?

10 A. Certainly. There's a lot of issues that
11 need to be considered. The financial aspects that have
12 been brought out are certainly one of those.

13 I think one of the issues that the
14 Commission needs to recognize is that COS is not the only
15 service that's available in parts of the state for calling
16 between communities that have communities of interest. MCA
17 is obviously one of those services. And if you look at --
18 I didn't do it on a statewide basis, but if you look at
19 Southwestern Bell's customers -- let me check the number.

20 If you look at Southwestern Bell's
21 customers, 87, 88 percent of those customers have MCA
22 service either as mandatory or as an optional service, and
23 they have a service that meets their calling needs; they
24 don't need COS. Another 27 percent of Bell's customers --
25 actually there's some crossover between them, because some

1 of them have both -- have EAS. And there's only
2 7.4 percent of Bell's customers that don't have either MCA
3 or EAS.

4 So we're -- we have other services that
5 have met the need that COS has met and that meet the needs
6 for large parts of customers in the state. And we have a
7 relatively small number of customers whose needs weren't
8 met by EAS and that we've attempted to address with COS.
9 And I think that needs to be -- when you look at the total
10 statewide body of customers, you need to recognize that
11 there's a whole bunch of customers that don't need COS,
12 because they've got something else.

13 Q. Then let's -- let me ask just a couple more
14 questions with respect to your -- the 800 service --

15 A. Okay.

16 Q. -- to keep two-way COS going. Let's talk
17 about how one would be charged for that. If we were using,
18 like, yesterday's Pilot Grove to Boonville example and
19 we're now at \$16 for two-way service, how would you see the
20 customer being charged if Southwestern Bell had to provide
21 800 service?

22 Would there still be something like the \$16
23 charge that would be passed to Southwestern Bell, and
24 Southwestern Bell would have the obligation to then take
25 care of the originating/terminating traffic and provide

1 their 800 service at no additional cost to the customer?

2 A. That's one way that it could be done, and
3 that would be the minimum amount of change. But it doesn't
4 mean that the rate couldn't be increased as one
5 possibility.

6 Q. Do you know --

7 A. This particular proceeding may not be the
8 case to address the issues of access charges, but obviously
9 the overall level of access charges is an issue that's
10 of -- that impacts COS and the primary toll carrier plan
11 and a lot of other services, and probably at some point in
12 time and in some place the Commission is going to need to
13 address that issue more directly.

14 Q. Do you know what the primary toll carriers'
15 800 services charges are right now?

16 A. I don't think I brought that with me. I
17 did review Southwestern Bell's tariff within the last three
18 or four months, and I used that data. It looked like a
19 number in the shortage mileage bands of around 14 to
20 15 cents a minute, would be what they would charge a normal
21 800 customer for that service. But that's a quick summary
22 of it. It may be somewhat different than that, and it
23 may -- I don't remember whether that's mileage banded or
24 not.

25 Q. With the FCC's current part of their

1 trilogy with their response to access reform and, as you've
2 just indicated, there being down the road changes to access
3 charges, reductions in access charges, do you think that
4 that will be one way of resolving these toll costs in these
5 small areas?

6 A. Certainly if small companies' access
7 charges were reduced -- and some of the larger companies'
8 access charges, for that matter. But if access charges
9 were reduced, all other things being equal, the gaps would
10 be less.

11 One of the issues that the Commission has
12 dealt with in some individual company cases in that regard
13 is that, assuming that the company is earning an
14 appropriate rate of return, those revenues then need to be
15 made up from some other source. And there aren't a lot of
16 other sources. Local rates is one of those. My perception
17 is that there's a general reluctance to raise local rates,
18 unless we absolutely have to in this state.

19 About the only other source is possibly
20 indirectly through the state Universal Service Fund. If
21 the ultimate determination of the rules and the costs
22 associated with that provide high cost fund support to
23 those companies, then it may be possible to cause access
24 rate reductions to offset those new funds that are coming
25 from the state Universal Service Fund.

1 COMMISSIONER DRAINER: I'm not taking
2 notes. I lost my train of thought. I'm sorry. I had one
3 more question for you, but I seem to have forgot what it
4 was, since I didn't take a note and write it down,
5 Mr. Schoonmaker. So I will pass you on to another
6 commissioner.

7 ALJ ROBERTS: Commissioner Crumpton?

8 QUESTIONS BY COMMISSIONER CRUMPTON:

9 Q. Yes. Good afternoon.

10 A. Good afternoon, Commissioner.

11 Q. How are you?

12 A. Fine.

13 Q. I have a number of questions for you. I
14 guess my first question is, did you read Mr. Ensrud's
15 testimony?

16 A. Yes, I did.

17 Q. Do you mind criticizing his analysis for me
18 or tell me what's wrong with it?

19 A. Mr. Ensrud's -- it would help me if you
20 could be a little more specific on which part of the
21 analysis and so forth you're talking about. His direct
22 testimony deals with COS. The rebuttal testimony deals
23 with statewide COS.

24 Q. The COS, please.

25 A. Okay. Well, that's an awful broad

1 question. Let me see if I can summarize some high points,
2 and if you want to stop me and direct me somewhere else,
3 please do that.

4 I think Mr. Ensrud recognizes, as my
5 testimony shows and as Bell has testified, that the
6 revenues associated with COS do not cover the access
7 charges that are being paid for. That shouldn't be a
8 surprise to anybody that's familiar with the service.
9 That's -- I think everyone realized that, when the service
10 was established, that was going to be the case. The volume
11 of that may have grown some since then, but one of his
12 criticisms is that that gap should be resolved.

13 I think if I can step back for a minute and
14 talk just for a minute about telecommunications service
15 pricing, I think --

16 Q. That won't help me much.

17 A. Okay.

18 Q. He makes a statement, I believe, that the
19 current system is anti-competitive, and it makes it
20 impossible for companies like the CompTel Missouri members
21 to compete and provide service to this group of customers.

22 A. Well, a couple of things on that. Number
23 one, I certainly don't propose that CompTel be prohibited
24 from providing COS. I would encourage them and AT&T and
25 anyone else, too, that would want to. As Mr. Jones said

1 yesterday, I don't suspect they're going to step up to that
2 because of the economics of it.

3 Q. Would you -- but suppose the current
4 primary toll carrier is no longer providing that service.
5 How are you going to make it work then?

6 A. Well, I mean, one of the options is to
7 require, as Southwestern Bell has proposed, the individual
8 local exchange carrier to do that. That has a whole number
9 of -- a lot of ramifications with it.

10 Another option is simply to let it die a
11 natural death as people choose other carriers and the
12 primary toll carrier, or it can be eliminated completely
13 immediately as sort of a, as Staff has proposed and -- you
14 know, let's take the hit now with the customers and go on
15 with competition, and hopefully competition will provide
16 some benefits that will partly offset that loss at least to
17 those customers.

18 You know, the service, as it's constructed,
19 has rates that are lower than the access cost, and unless
20 those are brought in balance, it's not going to be an
21 attractive service for other people to offer.

22 Q. Would you -- you have been working with the
23 Small Telephone Companies for years. Am I correct?

24 A. That's correct.

25 Q. You have -- did you participate in their

1 1984 rate cases?

2 A. In 1984, if you're talking the divestiture
3 rate cases, I was working for GTE at the time. I didn't
4 participate in those cases.

5 Q. Okay. Have you ever participated in one of
6 the Small Telephone Company rate cases in Missouri?

7 A. Yes. I was very active and presented all
8 of the -- most of the testimony for Citizens Telephone
9 Company in their case about four years ago.

10 Q. Okay. In your testimony on page 4, you
11 discuss EAS, implementation of EAS.

12 A. Uh-huh.

13 Q. Why was EAS implemented in the first place?

14 A. Well, initially a lot of it was implemented
15 as a cost savings message when --

16 Q. Okay. Hold that point. Now, is this the
17 time during which, if a customer wanted to make a telephone
18 call down the road, say, two miles or three miles to
19 another little town, they would pick up the telephone, and
20 they would go through an operator?

21 A. Yes.

22 Q. And they would tell the operator the number
23 to dial?

24 A. Yes.

25 Q. And the operator would dial the number and

1 then push a key that made it a toll call?

2 A. Yeah. And actually I think they ended up
3 contacting another operator at the other end and then
4 completing the call at least at one point in time. But it
5 was when -- the time when there were big cost savings
6 associated with EAS was when there were operators very much
7 involved, and it was a very labor intensive business.

8 Q. So in order to avoid the labor cost and
9 give the customer the same service, EAS was implemented.
10 Is that the purpose?

11 A. That was certainly -- in the early days
12 that was one of the primary things. I mean, there was also
13 a community of interest. People wanted to call, and there
14 were calling needs going on.

15 Q. Right.

16 A. But it made it easy to implement at that
17 point in time, because by doing so you could actually save
18 money and cut the overall cost of service.

19 Q. During the strike I worked in the
20 Springfield office handling those kind of calls, and I
21 noticed that people were calling like their relatives,
22 their doctors, the drug store, the grocery store, places
23 that we reach by local calls. I had to set up the dialing
24 for them and then charge them for that.

25 A. Yes.

1 Q. So -- and I noticed that this was a very
2 labor intensive way to provide this service. So the big
3 benefit to the companies, the local companies, was that
4 they avoided the labor cost, and they still provided the
5 service. And at that point it was financially a good thing
6 to do.

7 A. That's correct.

8 Q. Okay. Now, further on this same page you
9 mention implementation of EAS generally became a costly
10 proposition because of the loss of toll revenue and/or
11 intercompany compensation.

12 Now, if it achieved its original goal,
13 which was to eliminate labor and provide the same level of
14 service, how did you-all become aware that there was this
15 loss of toll revenue? I mean, you knew that going in, did
16 you not?

17 A. Well, perhaps I worded my testimony
18 inartfully. At the time that the operators were there,
19 yes, there was a loss of toll revenue, but the loss of
20 labor costs --

21 Q. Overcame?

22 A. -- overcame that and was a fairly neutral
23 proposition.

24 Q. Right.

25 A. Once you got to direct distance dialing

1 where the labor costs were replaced by capital, the
2 investments were made in the switching equipment, then when
3 you implemented EAS, there was very little cost savings,
4 but you still lost the toll revenue. And so the financial
5 impact of implementing EAS became much greater.

6 And that's the point where it became more
7 difficult to implement partly perhaps because instead of
8 averaging that across all of a body of customers, a process
9 was involved where you figured out what was the lost cost
10 on that particular route. Then you went out and asked the
11 customers, are you willing to pay 4.50, \$6, \$9, whatever
12 the number was. And there were generally -- some of the
13 customers who were the heavy users that were willing to pay
14 that, and there were the other customers that weren't the
15 heavy users that weren't.

16 And depending how those weighted out, some
17 of them were voted in, and they were established. And
18 those that were lower users helped pay for, through
19 averaged rates or helped to subsidize, depending on the
20 term you want to use, the high users. And it was
21 implemented. In other cases it was not, and it remained a
22 toll service.

23 And in this state -- and I don't know the
24 history of it -- most of the EAS is implemented within an
25 individual company and not between companies. And you get

1 situations where -- we're seeing COS today where
2 Southwestern Bell has a large town; they have five
3 exchanges. I'm thinking of St. Joseph right now. Five
4 exchanges on the southern part of St. Joseph where those
5 customers have EAS in St. Joseph. GTE has eight or ten
6 exchanges on the northern and eastern sides of St. Joseph
7 that do not have EAS, and they have COS instead.

8 Q. So the real reason to abandon EAS was in
9 search of these toll revenues that the companies realized
10 they were losing?

11 A. It was partly that and partly the procedure
12 of trying to apply the specific costs of each route just to
13 those customers on that route; whereas, in other situations
14 we averaged the costs over broad bodies of customers.

15 Q. On page 5 you talk about this EMS service
16 where a certain community of interest calling criteria were
17 met. Do you recall what those criteria were?

18 A. I'm not certain, but I think they're the
19 same ones that we have for COS today. And that's an
20 average of six calls per -- more per customers plus
21 two-thirds of the customers making two or more calls.

22 Q. How was that criteria developed? Do you
23 recall?

24 A. I believe it was through a hearing process
25 and alternatives presented to the Commission and a decision

1 being made based on the evidence that was before the
2 Commission. I mean, they -- I --
3 Q. You don't recall?
4 A. I don't know specifically all the details
5 of it. I don't think there was anything magic that said
6 here's a natural dividing point. I think it was that it
7 ultimately became a reasonable decision that the Commission
8 made as to an indication of community of interest.
9 Q. So you don't know where it came from?
10 A. Not specifically, other than from the
11 hearing process.
12 Q. Okay. My concern is that, if you use, you
13 said, on average three calls per customer --
14 A. Six.
15 Q. -- I mean, six calls per customer, that
16 doesn't mean that if you had ten customers, nine of them
17 could have made no calls. Is that right?
18 A. That's correct.
19 Q. On that particular --
20 A. On that criteria.
21 Q. That criteria.
22 A. That's why the second --
23 Q. The other made all the calls on that
24 criteria, just talking about that one?
25 A. Yeah.

1 Q. Okay. And what was the second one?

2 A. The second criteria was that two-thirds of
3 the customers make two or more calls a month.

4 Q. Two or more calls.

5 A. And that one sort of got the breadth of the
6 customer interest.

7 Q. So seven customers could have made two
8 calls, and it would have passed the criteria?

9 A. Yes.

10 Q. Okay. Would that explain why the take rate
11 on COS is so low once you implement it into an area?

12 A. I haven't looked at that in detail. It's
13 certainly one of the explanations. You may have a
14 situation where a large number of -- or a small number of
15 customers are making a large number of calls. Some of it,
16 undoubtedly, has to do with the distance between the two
17 exchanges, because the toll rates are lower in the zero to
18 eight mile band than they are towards 23 miles. And
19 there's some economic trade-offs related to the toll rates
20 as well.

21 Q. Okay. In the case No. TO-92-306, on page 8
22 of your testimony you talk about the many complaints --

23 A. Yes.

24 Q. -- that were received concerning the
25 various calling plans that we had in place.

1 A. Okay. Lines 7 through 9.

2 Q. Yes. Were these complaints also the ones

3 that were resolved by the MCA and the OCA?

4 A. And the COS combined, yes.

5 Q. Those complaints were -- so what percent of

6 the complaints, would you think, were taken care of by

7 implementing MCA and OCA? Or what percent do you think

8 really applied to COS?

9 A. I would guess that a fair majority of them

10 came from the metropolitan areas and were taken care of by

11 MCA. I think a relatively small number were taken care of

12 by OCA.

13 Q. OCA. Okay.

14 A. I would put COS in the middle category of

15 those three.

16 Q. If only a half of a percent -- or if only

17 12 percent of those are eligible to take the service,

18 actually take it, out of a large number of complaints that

19 would include the whole state of Missouri, what percent

20 would you think would be COS related? Don't you think that

21 would be a large number?

22 A. I didn't look at that data in any detail.

23 I didn't see it. So it would be really hard for me to

24 estimate any closer than I did.

25 Q. It's okay if you can't answer the

1 question. My problem is that someone is trying to convince
2 me that a large number of people are going to be upset by a
3 plan that only 12 percent of the people who are eligible to
4 actually take and the usage patterns we don't -- are not in
5 this record, but once we get the usage patterns, we may
6 discover that the people who are really using it are even
7 smaller. And so this impression is being placed upon me as
8 if I have something to fear about fixing a problem that the
9 citizens of Missouri don't seem to be interested in any
10 way.

11 So I'm trying to find out why in the
12 testimony we keep going back to these complaints and people
13 being upset when -- if those complaints and that citizen
14 agitation was related to MCA and OCA, they probably took
15 care of most of it, wouldn't you say? And I think that's
16 what you did say.

17 So now I'm dealing with not the majority of
18 the people who were complaining in past years; I'm only
19 dealing with a very small number, is what I'm thinking. As
20 an expert, would you help me out?

21 A. Well, I think it will be a smaller number
22 than it was then, because there were people in the
23 metropolitan areas that were involved; and it's not being
24 proposed that MCA service be eliminated.

25 Q. All right.

1 A. I think there were a number of people that
2 were not in the metropolitan areas, and I think -- I think
3 they will be upset, I guess. You know, one of the things
4 that I've suggested in my testimony is that you have the
5 customers themselves notified and find out. If nobody
6 comes forward and says anything, then you've got a pretty
7 good idea that maybe it isn't that big a deal. If 18,000
8 of them come and picket the capitol building, you know
9 you've got at least 18,000 of them that are really
10 interested. And I don't suspect there will be that many
11 that will be here. I don't know.

12 Q. Eighteen thousand wouldn't come unless some
13 of your members provided the buses.

14 A. We didn't provide the buses before. They
15 came on their own.

16 Q. Okay. Could we have a return call feature
17 on this OCA service that you have on page -- that you have
18 on page 10 of your direct?

19 A. Well, the return call feature, the way COS
20 has been, is a unique feature. It involves the billing
21 system. Could you tie an 800 application with OCA rather
22 than COS? Yeah. I suspect that could be done. I don't
23 know what the appropriate pricing would be and so forth.

24 But I mean, there is 800 service available,
25 and people can buy that. The prices that it's charged

1 for -- it's not nearly as attractive as COS is.

2 Q. So what's the difference between OCA and
3 COS other than the range?

4 A. Well, there's two or three key
5 differences. First of all, OCA is offered in every
6 out-state exchange to every exchange within 23 miles
7 regardless of whether any community criteria are met. So
8 if an individual customer has a particular need but other
9 customers in the community don't, he can still subscribe to
10 that service.

11 The pricing of the two services is very
12 different. There is some discount associated with OCA,
13 particularly if the community of interest is out towards
14 23 miles rather than at 8 miles. But the pricing of OCA
15 is, because it's use insensitive, is much less attractive
16 than what COS is.

17 Q. And does not have a return call feature,
18 does it?

19 A. And it does not have a return call feature.

20 Q. And it's also a local service?

21 A. OCA is a toll service, a discounted toll
22 service.

23 Q. OCA is provided by the local exchange
24 company?

25 A. It's provided by and tariffed by the

1 primary toll carriers.

2 Q. The primary toll carrier. OCA?

3 A. Yes.

4 Q. Okay. Thank you. I'm learning, and I
5 think that's the reason they permit me to ask you these
6 questions.

7 On page 11 at the bottom of the page, what
8 would it cost to provide this service, this same amount of
9 time, under OCA? Would you -- could you provide me with
10 that kind of information? In other words --

11 A. The 7.75 and 5.75?

12 Q. Yes.

13 A. Yes. We could provide that.

14 Q. Because the mileage -- the more -- the
15 larger of block of time you took, the lower the rate
16 became. Right? It was like --

17 A. Yes. There's a three-hour -- and under OCA
18 there's a two-hour and a five-hour block of time, and there
19 are some discounts in there.

20 Q. Okay. You'll provide that to me?

21 A. Yeah.

22 Q. On page 15 of your direct I have a
23 question. My question is -- and maybe I'm being
24 redundant. If I am, just forgive me. Why should we force
25 the primary toll carrier to stay in this service and

1 continue to lose money? Can't -- go ahead.

2 A. Well, I think our concern is a recognition
3 that the Commission determined that COS was a toll
4 service. It's part of a broader package of toll services
5 that the primary toll carrier offers. They have a large
6 body of customers over which costs can be averaged. And so
7 the impacts of that loss in relationship to their total
8 service package might be much less than if an individual
9 company, a small company, for example, had that impact that
10 they had to absorb within four or five or 600 customers.

11 Q. The Public Service Commission in the State
12 of Missouri has made it possible for the Small Telephone
13 Companies to receive adequate revenue to provide the
14 service to the small communities in Missouri. Is that not
15 right?

16 A. Yes, they have.

17 Q. Because if we had not, they would not have
18 stayed out 18 years or -- I'm sorry, 13 years without
19 coming in for a rate increase. Right?

20 A. That's certainly true.

21 Q. So we can assume that they're making enough
22 money?

23 A. Most of them are.

24 Q. Now, how much would they lose if they did
25 not have this primary toll carrier in this subsidizing

1 mode? In other words, what would make the Small Telephone
2 Companies that you represent satisfied in terms of money to
3 continue to provide this service?

4 A. Let me come to COS directly, and let me
5 refer you -- I'm going to refer you to my Schedule RCS-3,
6 which is highly confidential, and just suggest that you
7 look at it. Then if we have questions about it, we may
8 need to go --

9 Q. Well, just point me to the line that will
10 circle the amount of money that you think will make the
11 companies you represent whole.

12 A. Well, if you go to page 3 of that
13 schedule --

14 Q. Page 3. Okay.

15 A. Let me just say, first of all, that this
16 schedule is based on a number of assumptions which I
17 outline in my testimony.

18 Q. Uh-huh.

19 A. It includes an assumption that the service
20 is changed to a one-way reciprocal service. It's --

21 Q. I mean, just -- let's assume that it's the
22 same way it is right now. I just want to know how much
23 money does it take to incent the companies you represent to
24 continue to provide this service at its current cost to the
25 customers that you serve, and there are about 17,000 of

1 them. Let's --

2 A. Well, if we talk about the service as it's
3 presently provided, what I have here is somewhat different
4 than that.

5 Q. Okay. What have you here?

6 A. Well, this assumes that the service is
7 changed to a one-way reciprocal service. It assumes that
8 the originating company pays for it at full access rates or
9 actually at access rates. It assumes that the access is at
10 the discounted access rate that the Small Companies have.
11 And you see the total impact would decrease their revenues
12 about \$2.8 million or 2.765517. And that total number is
13 not a highly confidential number.

14 Q. Okay.

15 A. Now, if you look at individual company
16 impacts --

17 Q. Uh-huh?

18 A. -- you see the very last column at the top
19 is the impact per access line per month, and for some of
20 the companies that impact is relatively small.

21 Q. Yeah.

22 A. And for others it's relatively large, and
23 for a couple of them it's way bigger than I think you
24 can --

25 Q. So the bottom line of all this is, in order

1 to incent the Small Telephone Companies to continue to
2 provide this level of service -- and I really want the
3 two-way service -- it would be a minimum of this amount,
4 and in order to get the call back, it would be more.
5 Right?

6 A. It could be more, and it depends some on
7 how the call back is priced.

8 Q. Okay.

9 A. If the -- for example, if 800 were used and
10 it were purchased as 800 services, that would be a greater
11 cost than if 800 were used but that 800 service was sold at
12 access rates, as Mr. Taylor suggested in his testimony.
13 And that would be a lesser cost than the full retail price
14 of 800 service.

15 Q. Okay. Now, if we divide that number by
16 17,000 -- do you have a calculator there?

17 A. I do.

18 Q. What is that?

19 A. 2765517 divided by 17,000, that equals \$163
20 per customer. And I divide that by twelve, and that's
21 \$13.56.

22 Q. Why did you divide it by twelve? I thought
23 this was a monthly number here.

24 A. No. That's an annual number.

25 Q. Oh. Okay. And you divide it by twelve,

1 and what do you get?

2 A. 13.56.

3 Q. \$13.56. So if we provided the Small
4 Telephone Companies \$163 per year in additional revenue per
5 customer, they will be whole, and we could end this
6 discussion. We could maybe even let the primary toll
7 carrier go do his work somewhere else.

8 A. Let me -- there's one thing I forgot
9 about. The total number here, the 2,765,000 relates to the
10 small company COS customers, not the total COS customers.
11 The 17,000 number is -- includes the GTE and Southwestern
12 Bell customers.

13 Q. Oh. That's right. Well, let's go back
14 then. How many of these customers belong to the Small
15 Telephone Companies? Because I'm assuming that if the
16 testimony -- if I understand the testimony, Southwestern
17 Bell probably would be satisfied if they just did their own
18 local COS. They --

19 A. Let me check just a minute to see whether I
20 have that or whether it's something we're going to have to
21 calculate.

22 Q. So many others have calculators, and
23 they're checking your numbers.

24 A. It would be 5,700 roughly --

25 Q. 5,700 customers?

1 A. -- excluding GTE, Southwestern Bell, and
2 United.

3 Q. Okay. Now, would you divide the 2765517 by
4 that and tell me what that number is?

5 A. That's \$485 annually.

6 Q. \$485 annually.

7 A. Which would be \$40 per COS customer per
8 month.

9 Q. So then the companies you represent will
10 continue to provide the COS service at least on a one-way
11 reciprocal basis. And, now, on a reciprocal basis in order
12 for the originating or the petitioning company to get the
13 same service, everybody in the target exchange would have
14 to have the ability to call back, which means that they
15 would all be able to call to the petitioning party.

16 A. Okay. Under the two-way service any
17 customer in the target exchange can call a petitioning
18 customer.

19 Q. Okay.

20 A. Under the one-way reciprocal service --

21 Q. Only the ones that signed up in the target
22 exchange would be able to call back.

23 A. Right.

24 Q. But we want to keep these companies
25 whole -- or these individuals whole. We want them to be

1 able to have that same return call that they currently
2 have. Is that something that we just can't do in the new
3 environment?

4 A. Well, I think in the new environment
5 probably the best way to provide that is using an 800
6 number vehicle.

7 Q. Okay. I'll let you guys choose what you
8 want. But the bottom line is that somehow the people of
9 Missouri would have to kick in \$485 a year to service this
10 5700 customers, and then your -- the parties you represent
11 will be whole?

12 A. That's what these numbers would show,
13 assuming that the analysis and the assumptions behind it
14 are correct.

15 Q. Okay. Now, the 800 service, is it my
16 understanding that you want the primary toll carrier to do
17 that 800 service?

18 A. That would be our preference.

19 Q. Well, why would we exclude CompTel Missouri
20 members, AT&T, and MCI from providing that service?

21 A. Well, I don't think there's any reason why
22 you should exclude them.

23 Q. Is there any reason why?

24 A. I would --

25 Q. Let me ask the question.

1 A. Okay.

2 Q. Is there any reason why they would want to

3 stay away from this service, this 800 service that we're

4 talking about that would be providing this return call?

5 A. You're talking about with the \$485 thrown

6 in or something?

7 Q. Yes. You got the 485. You got that from

8 somebody else.

9 A. If that were thrown in, that might make it

10 so that they would want to provide it as well.

11 Q. So you would be able to lower your access

12 rates, and whatever other things you-all are doing that

13 make it unattractive to them now, you would remove those

14 barriers, and then they could come in and participate?

15 A. Depending on how the \$485 was distributed

16 and --

17 Q. I'm assuming that you-all would work that

18 out. I think that may be -- you mentioned a task force

19 that recommended that the new COS routes not be trued up.

20 Do you remember that testimony?

21 A. Yes.

22 Q. When did that task force meet? What year

23 was that? Do you recall?

24 A. Just a second. The Commission's order in

25 TO-92-306 was issued in December of 1992, so that would

1 have been in the first six to nine months of 1993 when that
2 task force was meeting.

3 Q. I might have been on this Commission then.
4 Did the Commission issue an order?

5 A. The Commission issued an order on
6 December 23rd --

7 Q. I mean, saying that we would not permit
8 this true-up of the COS routes in the future?

9 A. My recollection was, there was a statement
10 in the Commission's order that suggested that it was to be
11 a one time true-up on the routes that were going to be
12 implemented immediately. But I haven't reviewed that
13 language lately, so I don't remember exactly what it said.

14 But it was a combination, to my
15 recollection, of the language in the order plus the
16 implementation task force and their recommendation to the
17 Commission.

18 Q. But I thought the Commission said that we
19 would initially -- that we would take some action to
20 true-up the revenue flows six months after the route was
21 implemented.

22 A. That's correct.

23 Q. Okay. That's what the order said. Is that
24 correct?

25 A. Yes. And there were a lot of routes that

1 were ready to be implemented at that point in time that had
2 been on hold for some time.

3 Q. Yeah. But that's no problem. What I'm
4 trying to get to is who issued a statement saying that
5 these COS routes would not be trued up, the new ones? I
6 mean, how did you reach the conclusion that they were not
7 to be trued up in the future, the new ones?

8 A. My recollection was that the statement in
9 the Commission's order about the true-up indicated that
10 there would be a true-up for these routes that they were
11 implementing immediately but not necessarily for those
12 beyond that. But I don't remember the language exactly. I
13 would have to look at it.

14 Q. Okay. I guess, can you provide me with a
15 cite, where that is?

16 A. We'll look for that and look for
17 information in the minutes of the meeting and provide that
18 to you.

19 Q. Yeah. Would you please? You do have the
20 minutes?

21 A. Yes.

22 Q. Okay. Could I get a copy of those minutes?

23 A. Yeah. It's a book about this thick. Okay
24 (indicating).

25 Q. Just copy the piece that talks about the --

1 A. About the true-ups?

2 Q. -- the true-ups. That's all I'm interested

3 in.

4 A. Okay. Fine.

5 COMMISSIONER CRUMPTON: And that takes care

6 of my questions, and I thank you very much for your

7 testimony.

8 THE WITNESS: Thank you.

9 ALJ ROBERTS: Mr. England I'm going to, I

10 think, identify Exhibit No. 40 for that information. Want

11 to make a note? And the questioning, back to Vice Chair

12 Drainer.

13 QUESTIONS BY COMMISSIONER DRAINER:

14 Q. Found my note. Mr. Schoonmaker, were you

15 one of the participants in the primary toll carrier plan

16 implementation?

17 A. Yes.

18 Q. So you're one of those veterans too.

19 Right?

20 A. Yes.

21 Q. Okay. One of the things that we've heard

22 yesterday and today is that it is the primary toll carrier

23 plan that is in place in Missouri that has allowed this

24 state to be able to implement the two-way COS, that the

25 way -- our plan allows for the clips and takes between

1 companies and measure it and do billing that allows for
2 COS.

3 A. Yeah.

4 Q. Well, but that -- when the primary toll
5 carrier plan was put together, there wasn't part of the
6 plan COS, was there? I mean, that wasn't ever -- I mean,
7 it may allow for a COS, but it wasn't part of the driving
8 force in the way the primary toll carrier plan was put
9 together?

10 A. That's correct. COS came afterwards.

11 Q. So when we talk about who either makes
12 money or loses revenues with COS and then has to, for
13 revenue neutrality, recaptures the funds, there was no
14 commitment through the primary toll carrier plan
15 implementation to have a service like COS that could
16 possibly generate revenues for some local telephone
17 companies at the expense of other local telephone
18 companies?

19 A. No. That was -- that was ordered
20 separately by the Commission in docket TO-92-306.

21 Q. But that was to implement the service?

22 A. COS, yes.

23 Q. And do you think it is the obligation of
24 the citizens of Missouri to have services subsidized to
25 give some carriers money at the expense of customers of

1 another -- other local exchange companies?

2 Let me be more direct. If COS goes away
3 and, therefore, some secondary carriers don't make as much
4 revenue and if then the primary toll carriers have to make
5 an adjustment back for any extra revenues they're now
6 gaining because of the revenue neutrality issue, because
7 they've increased some discretionary services and if they
8 figure out what those additional revenues are, what's the
9 problem with that?

10 I mean, we're not doing COS for the
11 secondary carriers, are we? We're doing it for community
12 of service --

13 A. And for the customers.

14 Q. -- for the customers. Right? That's what
15 you've been telling me. So this isn't an issue of making
16 sure that secondary carriers make some money at the expense
17 of the customers of primary toll carriers. That's not why
18 we're doing this?

19 A. No.

20 Q. And if another service or services, through
21 competition, allow customers through 800 services or
22 discounted services or services that MCI or AT&T or any
23 other IXC's through intraLATA dialing parity bring forward
24 that take care of those customers, then we would have
25 solved the problem?

1 A. Yeah. That would be wonderful. I don't
2 expect it to happen because of the nature of the pricing of
3 COS, but --

4 Q. Well, isn't there also such things as cell
5 phones now that people are more and more going to using
6 cell phones that do things that really boundaries between
7 exchanges for them?

8 A. Yeah. I just priced one out for use in
9 Missouri recently, and it's 50 cents a minute. The
10 boundaries are removed, but the airtime charges are not
11 particularly attractive.

12 Q. But as competition moves forward, we might
13 expect that there could be changes in prices as there
14 become more competitors?

15 A. There probably will be some.

16 Q. Isn't that a basic economic theory, that as
17 you move towards competition, that you drive prices to
18 cost?

19 A. That's the assumption upon -- yeah. You
20 drive them to cost. Whether cost is less than the COS
21 rates or greater than the COS rates, I think there are many
22 people here that would argue that they're greater than the
23 COS rates, and it will drive the rates up.

24 Q. Well, but I think we've established that
25 COS isn't based on cost.

1 A. I agree. It's below.

2 Q. Okay. But I just want to be clear that
3 there was nothing in the primary toll carrier plan or the
4 intent of even COS that it was for the purpose of
5 subsidizing one company at the expense of another company
6 and another company's customers. The intent was for some
7 community service issues?

8 A. That's correct.

9 COMMISSIONER DRAINER: Okay. Thank you. I
10 have no other questions.

11 QUESTIONS BY ALJ ROBERTS:

12 Q. I just want to try to make one issue clear
13 as a follow-up to what Commissioner Drainer said and your
14 response. I don't need to mention a company name, but I
15 have a cell phone that gives me unlimited free minutes
16 nights and weekends, and I can call St. Louis, Kansas City,
17 Lake O, Rolla, Jeff City, Ashland, Columbia, all without
18 any toll. And it's about \$17 a month. Isn't that as good
19 or better than COS?

20 A. I'll come talk to you afterwards. I mean,
21 I --

22 Q. But I mean, I think that's the issue of the
23 question. Aren't there other alternatives to COS that
24 already exist?

25 A. I'm not aware of any that are priced

1 anywhere near the range that COS is priced. There may be,
2 and I may not be aware of them.

3 But what I've seen in people's tariffs
4 talked about 800 service. 800 services are a good deal
5 more expensive than COS is for return calling. The
6 discounted toll plans that I've seen that are filed are
7 generally more expensive now. And --

8 Q. So I take it, just on this same line, then
9 you haven't necessarily looked at wireless solutions?
10 Maybe that's not --

11 A. I haven't looked at wireless solutions in
12 terms of COS. I personally was in and talked to both
13 Ameritech and Southwestern Bell Mobile Systems last week in
14 terms of buying a cellular phone for my use while I'm here
15 in Missouri, which is quite frequently. And the prices
16 that I got quoted were not anywhere near \$17 for unlimited
17 calling. I must admit I was anxious to call during the
18 day, which would be most of my calling time, and not
19 necessarily nights and weekends in Missouri.

20 ALJ ROBERTS: Okay. Thanks very much.
21 Redirect and recross, questions based on questions from the
22 bench. And I believe this goes first to Mid-Missouri
23 Group.

24 RECROSS-EXAMINATION BY MR. JOHNSON:

25 Q. Mr. Schoonmaker, have you quantified the

1 number of people who do not buy COS service that live in
2 the target exchange but can make return calls?

3 A. No.

4 Q. Is it more than the 18,000 that subscribed
5 to it in the petitioning exchange?

6 A. Yes.

7 Q. Can you give us an idea of how much more?

8 A. Well, it would be a lot -- let me make sure
9 I understand your question. You're talking about all the
10 customers in all the target exchanges that can call back
11 that aren't charged. It would be several hundred thousand,
12 because there's COS into Kansas City; there's COS into
13 Springfield; there's COS into St. Joseph.

14 Q. I'm not trying to be cute, but if the
15 service were eliminated, besides the 17,600 that buy it,
16 some of those people might have cause to complain about the
17 elimination of the service even though they don't subscribe
18 to it?

19 A. That's true.

20 MR. JOHNSON: That's all I have.

21 ALJ ROBERTS: Public Counsel?

22 RECROSS-EXAMINATION BY MR. DANDINO:

23 Q. What would be a reasonable take rate for
24 telecommunications services?

25 A. Boy, that's a hard one. I mean, it ranges

1 from 94 percent for local service to probably one to

2 2 percent. I have a hard time --

3 Q. Sure.

4 A. -- narrowing down.

5 Q. I start out general, and that's very

6 general. Now a little more specific, would you say that

7 the 12 percent take rate for COS is an acceptable level, a

8 high level, a medium level of take rate for that type of

9 service?

10 A. Well, for a service that costs between 16

11 and \$33.50 a month plus a little bit more, I'd say that's a

12 reasonably high take rate. Most -- when I think about a

13 service, if I look at vertical features like custom calling

14 and so forth, those are usually priced in the three to \$5

15 range, and take rates of 15 to 20 percent are often felt to

16 be fairly good for those.

17 MR. DANDINO: That's all I have, your

18 Honor.

19 ALJ ROBERTS: TCG?

20 MS. FORREST: No questions.

21 ALJ ROBERTS: AT&T?

22 MR. DEFORD: Just one, I think.

23 RECROSS-EXAMINATION BY MR. DEFORD:

24 Q. Mr. Schoonmaker, when the criteria for

25 determining whether a COS route could be established

1 between particular exchanges were developed, I think you
2 told us that it was a certain number of calls per exchange
3 and a certain number of calls per customer. When those
4 criteria were developed, were there competitive
5 alternatives available to those customers making those
6 types of calls?

7 A. No.

8 MR. DEFORD: That's all I have.

9 ALJ ROBERTS: MCI?

10 MR. CURTIS: No questions.

11 ALJ ROBERTS: GTE?

12 MR. STROO: No questions.

13 ALJ ROBERTS: CompTel?

14 MR. ANGSTEAD: Just a couple of questions.

15 RECROSS-EXAMINATION BY MR. ANGSTEAD:

16 Q. In response to Commissioner Drainer's
17 questions about -- I know this may not be explaining it
18 correctly, but bear with me -- the lost total revenues
19 calculation that you went through, I think you ended up
20 with the number 18.3 million. Do you recall what I'm
21 talking about?

22 A. Yeah. Let me check it just a minute. Go
23 ahead.

24 Q. What I need to know is, was that based on
25 Bell's MTS rates?

1 A. That was based on the toll rates of a
2 number of our clients who reported minutes and lost toll.
3 Most of those would have been Bell rates. Some of them
4 might have been GTE or United rates. I'd have to go back
5 and check and find that out.

6 Q. Okay. So if it was based on somebody
7 else's rate, it would have been lower than -- this lost
8 toll amount could be lower. Is that fair?

9 A. Yeah.

10 Q. Okay. Do you know what the length of the
11 longest COS route is in Missouri?

12 A. No.

13 Q. Do you have any guess or --

14 A. Oh, I'd guess it's in the neighborhood of
15 somewhere between 40 and 50 miles.

16 Q. Do you know if any of the COS routes in
17 Georgia, Maine, and New Hampshire that you were talking
18 about are that long under those similar COS situations?

19 A. I'd be -- I don't know for sure. I'd guess
20 they're generally shorter. I'm not quite so sure about
21 Georgia. I know the description of that. It was a
22 county-wide plan, and I'm not familiar with how large the
23 counties are in Georgia. I mean, recognizing that there's
24 Atlanta and the Atlanta metro area and that was part of it,
25 there may be routes that approach that size in Georgia.

1 Q. But I guess you don't know for sure?

2 A. I don't know for sure.

3 MR. ANGSTEAD: Okay. That's all we have.

4 ALJ ROBERTS: Southwestern Bell?

5 MR. BUB: We have a couple, your Honor.

6 Thank you.

7 RECROSS-EXAMINATION BY MR. BUB:

8 Q. Mr. Schoonmaker, in response to some

9 questions from Commissioner Drainer you indicated that it

10 was your impression that Southwestern Bell was opposed to

11 changing to actual recorded T/O ratios that currently

12 exist?

13 A. That's the expression we've gotten from

14 them in the past.

15 Q. Okay. Would you expect that this TO ratio

16 sometimes favors a secondary carrier; sometimes it favors

17 PTC, depending on how much traffic and the volumes on each

18 company's --

19 A. I would assume that the changes that have

20 taken place since they were developed has resulted in some

21 of them being higher and some of them being lower.

22 Q. So would you be surprised if Southwestern

23 Bell had a concern that those secondary carriers, seeing

24 that they could gain from converting to actuals, would do

25 so while those that wouldn't wouldn't make the change?

1 A. No. I wouldn't be surprised at that. But
2 I gathered from Mr. Lane's questioning yesterday that
3 Southwestern Bell was implying that that was a right of
4 each individual company to do and that we could do that
5 rather easily, and that isn't what we've seen in practice
6 at this point in time.

7 Q. But you would agree that that would be --
8 that Southwestern Bell's concerns would be losing the
9 winners and keeping the losers?

10 A. Yes. I would agree that would be a
11 concern, but if --

12 Q. And if we all change at once, then as a
13 whole industry it would at least work out on average --

14 A. And we'd have to have probably a proceeding
15 before the Commission to do that, and that certainly wasn't
16 the nature of Mr. Lane's questioning yesterday.

17 Q. Okay. I have a couple of other questions
18 as well. Commissioner Drainer also asked if secondary
19 carriers lost money when they implemented COS, and your
20 response was that with the true-up it kept the secondary
21 carriers neutral on those initial limitations?

22 A. Yes.

23 Q. Did secondary carriers lose any money when
24 additional routes were added?

25 A. I would presume not.

1 Q. But it's fair to say that the PTCs did?

2 A. Probably.

3 Q. Okay. Commissioner Drainer also asked you
4 about converting to local, and you discussed that some of
5 the -- converting COS to local. You discussed some of the
6 issues that would have to be resolved would be billing
7 system issues and record passing issues. Do you remember
8 that answer?

9 A. Yes.

10 Q. If the Commission were to decide to convert
11 COS to local, would those issues be something that you
12 would expect have to be worked out in a technical
13 committee?

14 A. Somehow between the industry a technical
15 committee certainly would be one form it could be done in.

16 Q. Okay. You explained in response to
17 questions from both Commissioner Drainer and Commissioner
18 Crumpton that COS was established due to pressures the
19 Commission received from customers seeking relief from toll
20 rates. Do you recall that answer?

21 A. That was part of my answer.

22 Q. Okay. Are you aware that Southwestern Bell
23 has reduced its toll rates 28 percent since 1988?

24 A. I'm aware that they've reduced their toll
25 rates. I don't know the exact percentage.

1 Q. Okay. Would you agree that it's possible
2 that this toll rate reduction may reduce some of that
3 pressure on the Commission?

4 A. It's possible.

5 Q. Okay. Commissioner Crumpton also asked you
6 about subsequent true-ups. I'd like you to assume that the
7 Commission decides to change COS to local and requires
8 secondary carriers to provide COS. Do you expect your
9 clients would want true-ups after additional COS routes are
10 implemented?

11 A. Would you ask the question again?

12 Q. Sure. Assuming the Commission decides to
13 make COS local and requires the secondary carriers to
14 provide it, would you expect that your clients would want
15 true-ups after additional COS routes are implemented if
16 there's an adverse financial impact on them from adding
17 these routes?

18 A. If there's a significant one, they probably
19 would.

20 Q. Okay. As far as you're aware, there's no
21 statement in any Commission order that would prohibit a
22 subsequent true-up?

23 A. Under your hypothetical the order hasn't
24 been issued, so, no, there's not.

25 Q. Okay. I mean in the prior Commission

1 orders under which current COS was implemented. There's
2 nothing in those orders where the Commission said no one
3 can have subsequent true-ups?

4 A. I don't think it was that explicit. I'll
5 be providing that language in an exhibit, and it will stand
6 for what it stands for.

7 MR. BUB: Okay. That's all the questions I
8 have. Thank you very much.

9 ALJ ROBERTS: United?

10 MS. GARDNER: I have a couple. Thank you.

11 RECROSS-EXAMINATION BY MS. GARDNER:

12 Q. Mr. Schoonmaker, you indicated in response
13 to a question of Commissioner Drainer that the reason COS
14 was created in the first place was a community of
15 interest. Do you recall saying that?

16 A. Yeah.

17 Q. Does a 1 percent take rate indicate to you
18 a community of interest?

19 A. Well, the Commission has established a set
20 of criteria to determine that community of interest. A
21 1 percent take rate certainly is somewhat surprising in
22 view of the criteria and certainly raises questions as to
23 how deep the community interest is.

24 Q. So do I take it your answer is 1 percent of
25 community interest may not indicate community interest in

1 your opinion?

2 A. I'll let my answer stand for what it is.

3 Q. Okay. Let me ask it directly then. Does a

4 1 percent take rate indicate a community of interest in

5 your opinion?

6 A. Not a very strong one.

7 Q. What about 5 percent?

8 A. A stronger one.

9 Q. What about 10 percent?

10 A. A stronger one.

11 Q. Okay. At what point -- what percentage

12 would you be more comfortable indicating that there isn't

13 sufficient community of interest in your opinion?

14 A. I'm comfortable with the Commission's

15 criteria as they are now.

16 Q. So you're comfortable with the 1 percent

17 take rate?

18 A. I'm comfortable with the average of six

19 calls and two-thirds of the customers making two calls.

20 Q. Okay. Now, in response to a question from

21 Commissioner Crumpton, I believe, you indicated that the

22 reason why your opinion that the PTCs needed to continue to

23 provide this service is that there is a large body of

24 customers over which the cost can be averaged. Do you

25 recall saying that?

1 A. Yes.

2 Q. Fidelity Telephone is a primary toll

3 carrier, is it not?

4 A. It is.

5 Q. And how many customers does Fidelity

6 Telephone Company have?

7 A. With its subsidiary of Bourbeuse about

8 15,000, I think, maybe a little more.

9 Q. And in this case you also represent ALLTEL

10 Missouri, ALLTEL, Inc.?

11 A. That's correct.

12 Q. And how many customers does ALLTEL have?

13 A. Around 50,000.

14 Q. Is that sufficient size in which to average

15 cost in your opinion?

16 A. It might be.

17 Q. What about Grand River Mutual? How many

18 customers does Grand River Mutual have?

19 A. In Missouri I think thirteen or 14,000.

20 Q. Is that sufficient size to average cost in

21 your opinion?

22 A. I guess I'd have to see the specific

23 circumstances. It might be.

24 Q. Is it sufficient for Fidelity at about

25 15,000?

1 A. Given their particular circumstances and
2 the fact that they have a fair amount of EAS between their
3 exchanges so they have little likelihood of having much
4 COS, it is.

5 Q. Okay. Have you calculated what the toll
6 rate would be for the secondary carriers that sell access
7 to United, to Sprint if the secondary carriers had to
8 provide toll?

9 A. No, I haven't. I assumed that was the
10 subject for the PTC investigation.

11 Q. So you don't know whether their toll rates
12 would actually end up higher or lower than our toll rates?

13 A. No, I don't.

14 MS. GARDNER: Thank you. That's all I
15 have.

16 ALJ ROBERTS: Staff?

17 RE CROSS-EXAMINATION BY MS. MCGOWAN:

18 Q. When you were responding to questions from
19 Vice Chair Drainer, you talked about the PTC plan and how
20 it wasn't exactly where COS came from; COS didn't actually
21 have a part of the PTC plan. It's my understanding, I
22 guess -- correct me if I'm wrong -- that the PTC plan was
23 designed to come up with an alternative intercompany
24 compensation mechanism to the then used toll pool. Is that
25 your understanding of the PTC plan?

1 A. That was one of its purposes.

2 Q. And it was through the PTC plan that access

3 charges were taken to be the intercompany compensation

4 mechanism?

5 A. Under the -- when the PTC plan was

6 implemented in 1988 for intraLATA services, bill and keep

7 access became the means of that compensation.

8 Q. And would we have COS today if it wasn't

9 for the PTC plan?

10 A. I don't know. If the pools had still

11 existed in 1992, I think COS could have at least as easily

12 been implemented and perhaps more so.

13 Q. Would we have COS if access rates were

14 significantly reduced to the point that they were not as

15 negative to customers, the toll rate?

16 A. I guess it depends how much. If they were

17 zero and toll rates were zero, we wouldn't need COS. You

18 know, somewhere in between there, yeah. I mean, the lower

19 the access rates are, the more customers are willing to pay

20 usage-sensitive rates. Where the dividing line is, I don't

21 know.

22 Q. So would you say that potentially the

23 underlying problem in this case would have to do with

24 access and the level of access rates?

25 A. The level of access rates is certainly one

1 of the problems that underlies this case and will underlie
2 the PTC case.

3 Q. Okay. Is local rates bill and keep?

4 A. Local rates are generally bill and keep.

5 Yes.

6 MS. MCGOWAN: All right. No further
7 questions.

8 ALJ ROBERTS: Mr. England?

9 MR. ENGLAND: May we go off the record for
10 just a second? I need to, in my own mind, get straight the
11 information we're going to provide in late-filed exhibits.
12 That may cut down --

13 ALJ ROBERTS: Off the record, please.

14 (Discussion off the record.)

15 ALJ ROBERTS: Mr. England, you may proceed
16 with your witness.

17 MR. ENGLAND: Thank you.

18 REDIRECT EXAMINATION BY MR. ENGLAND:

19 Q. I think I've just got one or -- several
20 questions that relate to a question asked you by
21 Commissioner Crumpton, and the gist of which that went
22 along the lines that, if Southwestern Bell were allowed to
23 do its thing with respect to COS and the small companies
24 were allowed to do their own thing with COS and get the
25 money they needed to recover that, would that be all

1 right.

2 And I guess my hypothetical comes off
3 that. If Southwestern Bell, for example, implements a COS
4 service as it is today and is able to do that at \$16 for
5 residential customers and that is because of its size and
6 its ability to average cost among its customer base and an
7 individual small company is able to provide that same
8 service but because of its size and demographics must
9 charge twice or three times that rate, in your opinion
10 would those two services be reasonably comparable and
11 offered at comparable rates?

12 A. Doesn't sound like they would be offered at
13 comparable rates.

14 Q. They would be reasonably comparable?

15 A. Under your hypothetical.

16 Q. And then, finally, in your opinion does
17 that meet the goals of universal service?

18 A. Certainly questionable. It may be
19 questionable under the Telecommunications Act and the
20 geographic averaging provisions in the Telecommunications
21 Act.

22 Q. There was another question with respect to
23 designing a plan that provided the secondary companies with
24 a source of revenue versus designing a plan that would meet
25 customer needs. Assume for purposes of my question a

1 secondary carrier, who today provides COS and receives a
2 significant source of access revenues from COS but tomorrow
3 as a result of either the elimination of COS or the
4 conversion to local, loses that revenue stream. If that
5 small company is not earning an inappropriate rate of
6 return, will that have an impact not just on the small
7 company but its customer?

8 A. I would assume the small company would have
9 to find from some of its customers another revenue source
10 to make up that revenue so that their earnings can remain
11 adequate.

12 MR. ENGLAND: Thank you, sir. I don't
13 think I have any other questions.

14 ALJ ROBERTS: Thank you very much,
15 Mr. Schoonmaker. You may step down, and you may be
16 released.

17 (Witness excused.)

18 _____
19 ALJ ROBERTS: It's time for us to take an
20 afternoon break. I know that the Commissioners need to
21 resume their agenda meeting, I believe, to vote out some
22 orders of the Commission. I would hope to be back on the
23 record in about 15 minutes. I'm not sure if the
24 Commissioners will all be back, but I think they will join
25 us shortly thereafter.

1 The next witnesses we take up will be GTE's
2 witnesses, and I will be impressed if we get through both
3 of them by the end of the day. I -- it's my understanding
4 because of scheduling that we have to finish a -- excuse
5 me, finish by about 5:20 because of some additional
6 scheduling conflicts on our side. And then if we can get
7 to it, we'll also do Mr. Ensrud. Okay. Off the record,
8 please.

9 (A recess was taken.).

10 ALJ ROBERTS: Mr. England -- sorry. We're
11 back on the record after the afternoon break. Mr. England
12 indicated off the record that he had an issue he wanted to
13 take off before we proceeded with the next witness.
14 Mr. England?

15 MR. ENGLAND: Yes, I do. Before we get too
16 far down the road, during cross-examination of
17 Mr. Schoonmaker some questions were asked by Southwestern
18 Bell regarding a joint recommendation filed by members of
19 the local exchange community with the Commission known as
20 ELCS. I think that was extended local community or
21 something, calling service. And I believe that the
22 cross-examination was terminated with the thought or the
23 understanding that Southwestern Bell could argue their
24 position or make their point through official notice of the
25 Commission's order issued in that particular case,

1 TO-87-131.

2 I would like for the record to reflect, and
3 if official notice is appropriate, that the joint
4 recommendation filed in that case, which was ultimately
5 rejected by the Commission, contains certain additional
6 terms and conditions, one of which I think is very
7 appropriate for purposes of this line of
8 cross-examination.

9 And that is, and I quote, the joint
10 recommendation represents a negotiated agreement for the
11 sole purpose of disposing of all issues among the signatory
12 parties in case No. TO-87-131 and concerning prospective
13 application to new requests for extended local calling
14 scope service. Except as specifically provided herein,
15 none of the signatory parties to this joint recommendation
16 shall be prejudiced by or bound by stipulations contained
17 herein in any future proceeding or in any proceeding
18 currently pending under a separate docket in this or any
19 other jurisdiction.

20 ALJ ROBERTS: Was that a joint
21 recommendation which was rejected?

22 MR. ENGLAND: Yes. Of something less than
23 all of the local exchange companies, but some of my clients
24 did enter into that stipulation. And I just don't think
25 it's appropriate to leave the inference or the implication

1 that there was a service that we agreed to that may be
2 similar to something somebody else is proposing in this
3 case, particularly in light of that language in that
4 stipulation, that negotiated settlement.

5 ALJ ROBERTS: Did you want to offer that
6 document?

7 MR. ENGLAND: I would like to have official
8 notice of it, if that's appropriate, or if you would rather
9 have it as an exhibit, I can make copies and distribute
10 them.

11 ALJ ROBERTS: Well, because I -- I think I
12 earlier misspoke about something that's in our rules. The
13 Code of State Regulations, our Chapter 2 Section 130 on
14 evidence, states that any information contained in a
15 document on file as a public record with the Commission may
16 be offered into evidence. We can take notice of it. I
17 don't have to require you to provide copies. And if that's
18 on file in docket TO-87-131 --

19 MR. ENGLAND: That's correct. As a matter
20 of fact, we obtained it from the Commission files.

21 ALJ ROBERTS: Moments ago?

22 MR. ENGLAND: The copy, yes. It was filed
23 on approximately July 31, 1989, in that docket.

24 ALJ ROBERTS: That's fine. And do you want
25 to tell me the title of that document?

1 MR. ENGLAND: Yes, sir. Joint

2 recommendation.

3 ALJ ROBERTS: That's -- okay. And it was
4 filed on which date? Tell me one more time.

5 MR. ENGLAND: July 31st, 1989.

6 ALJ ROBERTS: In TO-87-131. Okay. I'll
7 take official notice of that along with the report and
8 order out of that same docket.

9 As I indicated earlier, I mean, I suppose I
10 should tell you to some extent we're taking judicial notice
11 of TO-92-306 and TO -- well, we're missing an order in
12 between there.

13 MR. BUB: 232.

14 ALJ ROBERTS: 232 sounds right. Thank you,
15 Mr. Bub. I mean, certainly I've already looked back at our
16 previous orders on COS. I'm not sure they -- they're
17 instructive. I'm not sure they're going to have much
18 effect on what the Commission does in the future. But
19 certainly it's nice to look back and make sure we don't
20 make the same mistakes again.

21 So unless there's anything further, the
22 witness on the witness stand, I assume, is Ms. Kahnert?

23 THE WITNESS: Correct.

24 ALJ ROBERTS: Okay. And I apologize. We
25 had agreed to take the GTE witnesses out of order, and in

1 doing so I think I disadvantaged the CompTel witness.

2 That's what I get for trying to be a nice guy and do

3 somebody a favor, which I usually try not to be a nice guy,

4 because it causes these kinds of problems. But it's my

5 understanding from Mr. Angstead that maybe your witness

6 would come back late tomorrow in the day or maybe even

7 early Thursday.

8 MR. ANGSTEAD: And I do not know the

9 results of the --

10 MR. ENSRUD: Yeah. I think so.

11 ALJ ROBERTS: We can certainly take him out

12 of order to accommodate that for this accommodation, and I

13 certainly think we'll still be here at least late in the

14 afternoon tomorrow. And I have reserved this room through

15 the end of Thursday. And actually I think it's open

16 Friday, so we've got it for the rest of the week.

17 MR. LANE: Let the record reflect a groan.

18 (Laughter.)

19 ALJ ROBERTS: The record can reflect a

20 collective groan. Off the record for a moment, please.

21 (Witness sworn.)

22 _____

23 ALJ ROBERTS: GTE's witness Kahnert has

24 been sworn. Mr. Stroo?

25 MARY L. KAHNERT testified as follows:

1 DIRECT EXAMINATION BY MR. STROO:

2 Q. Would you state your name and address for
3 the record?

4 A. My name is Mary L. Kahnert. My business
5 address is 1,000 GTE Drive, Wentzville, Missouri 63385.

6 Q. And who do you work for?

7 A. GTE.

8 Q. And what do you do for GTE?

9 A. I am the state manager, industry affairs
10 for Missouri, Oklahoma, and Arkansas.

11 Q. And did you either prepare or have prepared
12 certain direct testimony in this docket, rebuttal testimony
13 in this docket, and surrebuttal testimony in this docket
14 which are respectively marked as Exhibits 17, 18, and 19?

15 A. Yes, I did.

16 Q. Do you have any corrections to that
17 testimony?

18 A. Not corrections, but I understand that a
19 cover page was added to each document.

20 Q. If I were to ask you those questions today,
21 would your answers be the same?

22 A. Yes.

23 MR. STROO: I would tender the witness for
24 cross-examination and offer Exhibits 17, 18, and 19 into
25 evidence.

1 ALJ ROBERTS: Any objection to the
2 admission of those exhibits?
3 (No response.)
4 ALJ ROBERTS: Hearing none, those will be
5 admitted.
6 (EXHIBIT NOS. 17, 18, 19 WERE RECEIVED IN
7 EVIDENCE.)
8 ALJ ROBERTS: GTE witness first goes to
9 CompTel.
10 MR. ANGSTEAD: No questions, your Honor.
11 ALJ ROBERTS: AT&T?
12 MR. DEFORD: No questions, your Honor.
13 ALJ ROBERTS: MCI?
14 MR. CURTIS: No questions, your Honor.
15 ALJ ROBERTS: TCG?
16 MS. FORREST: No questions.
17 ALJ ROBERTS: Southwestern Bell?
18 MR. BUB: No questions, your Honor.
19 ALJ ROBERTS: United?
20 MS. GARDNER: No questions.
21 ALJ ROBERTS: Staff?
22 MS. MCGOWAN: No questions.
23 ALJ ROBERTS: Public Counsel?
24 MR. DANDINO: No questions, your Honor.
25 ALJ ROBERTS: Small Telephone Group?

1 MR. ENGLAND: No questions.

2 ALJ ROBERTS: Mid-Mo?

3 MR. JOHNSON: I'd like to ask you few.

4 ALJ ROBERTS: Thank you.

5 MR. JOHNSON: I knew you would appreciate
6 that.

7 CROSS-EXAMINATION BY MR. JOHNSON:

8 Q. Ms. Kahnert, I understood from your
9 attorney's opening statement that GTE has about 9,500 COS
10 subscribers?

11 A. Yes.

12 Q. I further understand there's a total in the
13 state of about 17,600?

14 A. That's what I understand from the other
15 testimony.

16 Q. That leaves about 8,100, and I understand
17 that 5,600 of those are SC customers, small company
18 customers?

19 A. I'll accept that.

20 Q. So that leaves 3,000 -- or 2,500. Is that
21 correct? You're saying United and Southwestern Bell only
22 have 2,500 COS subscribers between them?

23 A. I don't have numbers on their subscribers.
24 I know that our subscribers number around 9500.

25 Q. Okay. Since 1988 has GTE raised its MTS

1 toll rates, intraLATA? Southwestern Bell indicated in a
2 question earlier that they had reduced their rates
3 28 percent in that time period. I was wondering do you
4 know, and to what extent, if GTE has done the same?

5 A. I recall that we have reduced them at least
6 once, possibly more than that, but I can't tell you how
7 much.

8 Q. Is GTE earning its authorized rate of
9 return on its toll on MTS as well as COS?

10 A. I don't have that financial information.

11 Q. Do you know what the total toll revenues
12 for GTE were for 1996?

13 A. No. I could ballpark it, but it would be
14 very broad.

15 Q. How many exchanges does GTE serve in
16 Missouri in total?

17 A. I'm sorry. I don't recall the number of
18 exchanges. I believe we have about 400,000 access lines.

19 Q. I have a question -- and you have some
20 rural exchanges and some more urban exchanges. I think you
21 said that -- or your attorney said that Columbia was the --
22 one of the larger metropolitan exchanges in the state?

23 A. Correct.

24 Q. When it comes to your access rates, GTE's,
25 do you average your rural and urban exchanges and come up

1 with an access rate that applies for all your exchanges, or
2 are your exchange access rates different?

3 A. They're average.

4 Q. Are your access rates designed to
5 contribute to the cost of providing your local service?

6 A. Yes.

7 MR. JOHNSON: That's all I have.

8 ALJ ROBERTS: Already went through Small
9 TelCo Group, didn't we? Redirect?

10 MR. JOHNSON: Want me to ask some more?

11 (Laughter.)

12 ALJ ROBERTS: I'm sure you could.

13 Redirect, if you have any. If not, if you want to wait,
14 Mr. Stroo, what I will do is ask the witness to step down,
15 go through your other witness, and then recall the witness
16 to do bench questions on both of them.

17 MR. STROO: Why don't we do that, your
18 Honor?

19 ALJ ROBERTS: Okay. If you want to step
20 down. You will still be under oath. Off the record,
21 please.

22 (Witness sworn.)

23 _____

24 ALJ ROBERTS: Back on the record.

25 Mr. Evans is on the witness stand. You may proceed,

1 Mr. Stroo.

2 DAVID W. EVANS testified as follows:

3 DIRECT EXAMINATION BY MR. STROO:

4 Q. Would you state your name and address for
5 the record?

6 A. My name is David W. Evans. I'm at 1,000
7 GTE Drive, Wentzville, Missouri 63385.

8 Q. Who are you employed by?

9 A. GTE.

10 Q. And what do you do for GTE?

11 A. I'm the Staff administrator of rate design.

12 Q. And did you either prepare or have cause --
13 or have prepared certain testimony, direct testimony,
14 highly confidential version of that direct testimony,
15 rebuttal testimony, and surrebuttal testimony which
16 respectively have been labeled Exhibits 20, 20HC, 21, and
17 22?

18 A. That's correct.

19 Q. And are there any corrections to any of
20 that testimony?

21 A. There are no corrections per se, but a
22 cover sheet has been added to each of those.

23 Q. And is that testimony true and correct?

24 A. Yes, it is.

25 MR. STROO: I would offer Exhibits 20,

1 20HC, 21, and 22 and tender the witness for cross.

2 ALJ ROBERTS: Is there any objection to the
3 admission of those exhibits?

4 (No response.)

5 ALJ ROBERTS: Hearing none, 20, 20HC, 21,
6 and 22 will be admitted.

7 (EXHIBIT NOS. 20, 20HC, 21, AND 22 WERE
8 RECEIVED IN EVIDENCE.)

9 ALJ ROBERTS: Witness goes for
10 cross-examination to CompTel.

11 MR. ANGSTEAD: No questions, your Honor.

12 ALJ ROBERTS: AT&T?

13 MR. DEFORD: No questions.

14 ALJ ROBERTS: MCI?

15 MR. CURTIS: No questions.

16 ALJ ROBERTS: TCG?

17 MS. FORREST: No questions.

18 ALJ ROBERTS: Southwestern Bell?

19 MR. BUB: No questions, your Honor.

20 ALJ ROBERTS: United?

21 MS. GARDNER: No questions.

22 ALJ ROBERTS: Staff?

23 MS. MCGOWAN: No questions.

24 ALJ ROBERTS: Public Counsel?

25 MR. DANDINO: No questions, your Honor.

1 ALJ ROBERTS: Small Telephone Group?

2 MR. ENGLAND: No questions.

3 ALJ ROBERTS: Mid-Missouri Group?

4 MR. JOHNSON: No questions.

5 ALJ ROBERTS: In that case I'm going to
6 have to take a brief recess. I know the Commissioners had
7 questions for one or both of these witnesses, and there's a
8 chance we may actually get to Mr. Ensrud this afternoon.
9 So we will go off the record briefly.

10 (A recess was taken.)

11 ALJ ROBERTS: Ladies and gentlemen, we're
12 back. The Commissioners have rejoined us. I believe --
13 you're still under oath, of course. Vice Chair Drainer has
14 some questions for you, please.

15 MARY L. KAHNERT, recalled, testified as follows:

16 QUESTIONS BY COMMISSIONER DRAINER:

17 Q. Good afternoon.

18 A. Good afternoon.

19 Q. In your surrebuttal testimony you
20 basically, if -- I'm going to paraphrase. If I'm wrong,
21 correct me. But you basically accepted the Staff witness
22 Ms. Smith's recommendation that the Commission should
23 eliminate COS in its entirety. Is that correct?

24 A. As a mandated service.

25 Q. As a mandated service. Okay. So is that

1 once an exchange would have intraLATA dialing parity, that
2 there would no longer be a mandated COS service at all?

3 A. That would be my recommendation.

4 Q. If before there was intraLATA dialing
5 parity, at this time do you think that we should go ahead
6 and transition it out in some way into a one-way service
7 or -- I mean, have you thought through what you really want
8 this Commission to do?

9 A. I have thought about that, and I think it
10 would be my recommendation because of the competition that
11 is developing, that it would be transitioned to a one-way
12 service. But I haven't looked at the full ramifications of
13 that exchange by exchange. There is a limit to how many
14 exchanges I would suggest putting the customers through.

15 Q. So if it went to a one-way service, would
16 it be -- would that be mandatory then, or that would just
17 go to an optional service?

18 A. Mandatory until dialing parity was
19 implemented.

20 Q. Okay. Mandatory until dialing parity. And
21 then if this Commission were to order that COS become
22 mandatory until dialing parity, at what rate should each of
23 the companies charge for the one-way?

24 A. GTE witness Evans has our recommendation on
25 rates. We do believe they should be cost based, which may

1 mean they will vary by company.

2 Q. So GTE would propose that it could -- and
3 would it -- would GTE -- is GTE telling this Commission
4 that it is willing to offer an optional COS service that
5 would be cost based to its customers?

6 A. I think under the right circumstances we
7 would, and understand that there are folks in GTE that get
8 paid to look at the market and figure out what services
9 customers want. But given that they have it today, if
10 those customers continue to want one-way COS, and if the
11 price is set to cover our cost, then I do feel that we
12 would continue to offer it as a one-way service.

13 Q. In those exchanges that currently have
14 two-way COS, you would convert them to one-way optional?

15 A. Right.

16 Q. Would it be a local service or a toll
17 service?

18 A. Our recommendation is that it remain a toll
19 service.

20 Q. And can you tell me, when TO-92-306 was
21 implemented and there was the technical group that dealt
22 with the revenue neutrality issues, did GTE as a company
23 have to adjust any of its own rates to its customers in
24 order to maintain revenue neutrality and implement two-way
25 COS?

1 A. My recollection -- the industry came up
2 with forms that were used to determine revenue neutrality.
3 We use the same criteria, and in GTE's case I believe it
4 was close enough to revenue neutral that no rates were
5 adjusted. That includes the implementation of MCA, OCA,
6 and the revised COS service.

7 Q. If COS were changed, would there have to be
8 a technical conference of some type to revisit for all the
9 companies the revenue neutrality issue with the primary
10 toll carriers?

11 A. I believe so. It's hard to say what the
12 revenue impact is until you look at it, so I think that
13 would be appropriate.

14 Q. If GTE by being a primary toll carrier and
15 no longer having to pay access in order to carry the
16 two-way COS actually saved money, would it be making
17 adjustments to its customers to remain revenue neutral?

18 A. Would you mind to restate that?

19 Q. Well, since some of the testimony I've
20 heard in here indicates that some primary toll carriers
21 could have lost money in implementing COS and MCA and OCA
22 and, therefore, had to increase some discretionary
23 services, if they went back now and revisited removing
24 two-way COS, that the companies actually had a windfall,
25 would the primary toll carriers make adjustments and

1 reductions to discretionary services to customers?

2 A. I think we agree with the principle that we
3 should not realize a windfall from the change. I'm not
4 sure which services would be our first choice to reduce.

5 Q. But if you basically were neutral as you
6 were going into the plan, then it's kind of -- we didn't
7 increase rates going in, so we don't need to increase rates
8 to go out of the service?

9 A. Right.

10 Q. Do you believe that in the competitive
11 environment we're going into that this Commission can even
12 mandate COS?

13 A. It's a question that I have. I don't know
14 the answer, but I think certainly it's a question.

15 Q. Well, it's a question your attorney had
16 too, but neither one of you had an answer.

17 (Laughter.)

18 MR. STROO: You may find out in our brief.
19 I don't know.

20 BY COMMISSIONER DRAINER:

21 Q. Okay. I'll stay tuned. And if you-all
22 come up with an answer, I'll be happy to read it.

23 Is GTE or would GTE be committed to, if
24 this Commission were to make a change to COS and accept
25 GTE's proposal to go to a one-way optional service? Are

1 they -- is your company committed to educating the
2 public --

3 A. Absolutely.

4 Q. -- on why this is necessary with the
5 changing competitive environment and the federal act?

6 A. I think we believe it's incumbent upon the
7 entire industry to educate the public about this change.

8 COMMISSIONER DRAINER: I have no other
9 questions. Thank you.

10 ALJ ROBERTS: Redirect and recross based on
11 questions from the bench. And I think those would first go
12 to AT-- I'm sorry, CompTel.

13 MR. ANGSTEAD: No questions, your Honor.

14 ALJ ROBERTS: AT&T?

15 MR. DEFORD: No questions.

16 ALJ ROBERTS: MCI?

17 MR. CURTIS: No questions.

18 ALJ ROBERTS: TCG?

19 MS. FORREST: No questions.

20 ALJ ROBERTS: Southwestern Bell?

21 MR. BUB: No questions, your Honor.

22 ALJ ROBERTS: United?

23 MS. GARDNER: No questions.

24 ALJ ROBERTS: Staff?

25 MS. MCGOWAN: No questions.

1 ALJ ROBERTS: Public Counsel?

2 MR. DANDINO: No questions, your Honor.

3 ALJ ROBERTS: Small Telephone Group?

4 MR. ENGLAND: Yes, please.

5 RECROSS-EXAMINATION BY MR. ENGLAND:

6 Q. Ms. Kahnert, in response to a question from

7 Commissioner Drainer regarding whether or not GTE took

8 advantage of making a revenue neutral filing at the time it

9 implemented OCA, COS and MCA, I think it was your

10 recollection you did not. Is it safe to assume that you

11 did not because of the money you anticipated making on the

12 MCA service was sufficient to cover any losses you

13 anticipated in OCA and COS?

14 A. Yes. The industry, like I -- the industry

15 looked at both. They had a combined look at the impact of

16 implementing OCA and COS and another look at implementing

17 MCA, and in GTE's case those two off set.

18 Q. Do you recall what the losses were

19 associated with implementing those COS?

20 A. I'm sorry. I don't.

21 Q. Would it be safe to say that to the extent

22 MCA was a winner, if you will, at the time you implemented,

23 it continues to be a winner today? In other words, the

24 revenues more than covered the expenses associated with it?

25 A. Maybe yes, maybe no.

1 Q. Is it safe to say or can you at least say
2 that the revenues associated with MCA today are greater
3 than they were when you implemented the service in 1993?

4 A. If you assume that subscription has
5 increased, then it probably has.

6 MR. ENGLAND: Thank you. No other
7 questions.

8 ALJ ROBERTS: Vice Chair Drainer?

9 COMMISSIONER DRAINER: I'm sorry we've got
10 to go around the room again, but I have one other
11 question.

12 QUESTIONS BY COMMISSIONER DRAINER:

13 Q. Because we're talking about when the
14 technical committee put together the kind of puts and takes
15 on how primary toll carriers bill secondary carriers in the
16 92-306, was there a report that gave at the end what each
17 of the companies were going to do? Were they going to
18 propose increases or not?

19 A. My recollection is -- and it's been a
20 while, but I believe each company's numbers as far as
21 revenue neutrality were submitted to Staff. They may have
22 even been put in an exhibit, a confidential exhibit that
23 was submitted as part of the report.

24 Q. So possibly Staff would have a confidential
25 report that would show with respect to GTE -- to kind of

1 follow-up on Mr. England's question, there would be a
2 report that showed at that point in time for MCA that GTE
3 would, say, make money or OCA would make money, COS lose
4 money and have some type of number value?

5 A. Yes. I believe that was submitted to
6 Staff. One thing to keep in mind about that is that they
7 were projections based on our collective expectations on
8 stimulation, buy-up, et cetera, et cetera.

9 Q. And there was no true-up on those
10 projections?

11 A. Not that I recall.

12 Q. But this Commission could get access to
13 that report from Staff?

14 A. Yes.

15 COMMISSIONER DRAINER: Okay. Well, then I
16 would like to request from Staff a copy of the report for
17 us to review.

18 ALJ ROBERTS: Ms. McGowan, I see you
19 conferring with your witness. Do you know for a fact that
20 you-all -- that Staff has a copy of that? And your witness
21 is shaking her head yes. Okay. I will reserve No. 42.
22 And it sounds like that may be a 42HC. I'll allow you to
23 file it in whatever fashion is appropriate, a copy of the
24 report. Does somebody know what the title of that report
25 is or --

1 MS. MCGOWAN: No.

2 ALJ ROBERTS: That's all right.

3 COMMISSIONER DRAINER: It would be the

4 TO-92-306 projected revenue impact on PTCs/secondary

5 carriers.

6 ALJ ROBERTS: Okay. No. 42 or 42HC is

7 reserved for that late-filed exhibit.

8 COMMISSIONER DRAINER: That's all the

9 questions I had.

10 ALJ ROBERTS: Thank you. And I didn't get

11 to Mr. Johnson before. Guess I'll pick you up on the next

12 loop around. So as -- come back around. Don't worry. As

13 to this other round of questions from the bench, CompTel?

14 MR. ANGSTEAD: No questions, your Honor.

15 ALJ ROBERTS: AT&T?

16 MR. DEFORD: Still none.

17 ALJ ROBERTS: MCI?

18 MR. CURTIS: None.

19 ALJ ROBERTS: TCG?

20 MS. FORREST: No questions.

21 ALJ ROBERTS: Southwestern Bell?

22 MR. BUB: None.

23 ALJ ROBERTS: United?

24 MS. GARDNER: None.

25 ALJ ROBERTS: Staff?

1 MS. MCGOWAN: No questions.
2 ALJ ROBERTS: Public Counsel?
3 MR. DANDINO: No thank you.
4 ALJ ROBERTS: Small Telephone Group?
5 MR. ENGLAND: No more.
6 ALJ ROBERTS: Mid-Missouri?
7 MR. JOHNSON: No.
8 ALJ ROBERTS: Now or earlier.
9 MR. JOHNSON: Never.
10 ALJ ROBERTS: All right. And redirect for
11 Mr. Stroo?
12 MR. STROO: No, your Honor.
13 ALJ ROBERTS: Thank you very much. You may
14 step down.
15 (Witness excused.)
16 _____
17 ALJ ROBERTS: Off the record for a moment,
18 please.
19 (Off the record.)
20 ALJ ROBERTS: Back on the record, and
21 witness Evans has retaken the stand. You're still under
22 oath. Questions from Vice Chair Drainer?
23 DAVID W. EVANS, recalled, testified as follows:
24 QUESTIONS BY COMMISSIONER DRAINER:
25 Q. Good afternoon, Mr. Evans.

1 A. Good afternoon, Commissioner Drainer.

2 Q. I had a question on your direct testimony
3 on page 4 with respect to the rates or the rate design that
4 you show here. Would you just tell me, when are these --
5 are these proposed rates for one-way COS or --

6 A. Let me describe, if you will, my -- my
7 objection in this is fairly narrowly defined.

8 Q. Okay.

9 A. There were some discussions throughout this
10 about what-if. What if the Commission ordered one-way only
11 COS, whether it be reciprocal or not? And there were some
12 discussion about what those rates should be, and much of it
13 surrounded around some adjustment to the existing rates and
14 so on and so forth.

15 We took the position that the rates should
16 be cost based, so this is my effort to analyze and quantify
17 the cost-based computations within that narrowly defined
18 parameter existing COS routes ordered to be one-way only.

19 So to the extent that if the Commission
20 did, in fact, order GTE to provide the existing COS routes
21 on a one-way basis, these would, in fact, be the minimums
22 GTE would request in terms of rate design. This is the
23 rate design we would propose, and until such time as
24 mandated COS went away, these would be the rates that GTE
25 could live with.

1 Q. So this would be for one-way COS, and
2 basically there would actually be a rate reduction in all
3 classes except for the rural residential, and it would be
4 \$6.15. So that just means at this time \$16, add the 6.15
5 and go to 22.15 for one way. So the residential rural
6 would go to \$22.15. Is that mandatory then, one-way COS,
7 or if you had optional one-way COS would the rates be the
8 same?

9 A. I presume that the mandatory portion of the
10 plan would be that GTE would be mandated to provide it.
11 And I also presume that, since it's optional today, that it
12 would still remain as -- you know, as a selective service
13 for the customers.

14 I suppose, since I did the analysis on the
15 basis of an average COS customer, that if you mandated
16 everyone to pay for this, that I don't think that these
17 costs would necessarily be exactly the same.

18 Q. Oh. I'm sorry. Let me be clear. I just
19 meant if you did not -- if we did not mandate that you had
20 to have the service.

21 A. Oh. If the company were to select to do
22 this?

23 Q. Right.

24 A. I don't think that this analysis would
25 stand under that for the reasons Ms. Kahnert talked about,

1 because we have people who their job is to try to design
2 market-based type of offerings and that sort of thing.

3 I tried to narrowly define this as, we have
4 a mandated service today in these particular locations with
5 a certain customer set that is -- has a calling pattern,
6 that sort of thing, what would we have to go to if we were
7 to maintain that particular set of parameters on a one-way
8 basis. So I think within those narrow parameters these are
9 appropriate.

10 If we change to some sort of a different
11 type of offering or something like that, I don't think you
12 could use these as an etched-in-stone type of rate design.
13 No.

14 Q. Do you think in this regulatory environment
15 we're going into that this Commission can mandate that you
16 carry COS?

17 A. I think that is probably a question that's
18 more appropriately addressed by my learned counsel.

19 (Laughter.)

20 COMMISSIONER DRAINER: Okay. I have no
21 other questions.

22 ALJ ROBERTS: Recross based on questions
23 from the bench I believe goes first to CompTel.

24 MR. ANGSTEAD: No, your Honor.

25 ALJ ROBERTS: AT&T?

1 MR. DEFORD: No, your Honor.
2 ALJ ROBERTS: MCI?
3 MR. CURTIS: None, your Honor.
4 ALJ ROBERTS: TCG?
5 MS. FORREST: No thank you.
6 ALJ ROBERTS: Southwestern Bell?
7 MR. BUB: None, your Honor.
8 ALJ ROBERTS: United?
9 MS. GARDNER: No. Thank you.
10 ALJ ROBERTS: Staff?
11 MS. MCGOWAN: No questions.
12 ALJ ROBERTS: Public Counsel?
13 MR. DANDINO: No questions, your Honor.
14 ALJ ROBERTS: Small Telephone Group?
15 MR. ENGLAND: No. Thank you.
16 ALJ ROBERTS: Mid-Missouri?
17 MR. JOHNSON: Yes, please.
18 RE-CROSS-EXAMINATION BY MR. JOHNSON:
19 Q. I want to just ask a couple of questions,
20 because I'm confused. Maybe I don't understand what you're
21 trying to do. As I understood the pricing recommendation
22 that you discussed with Commissioner Drainer, the rural
23 rates were what my COS would go up to, \$22.15?
24 A. That's correct.
25 Q. And you're proposing that the metropolitan

1 rates would go down somewhat?

2 A. That's correct.

3 Q. And how much would they go down?

4 A. Well, that's --

5 Q. Do you have a figure for that?

6 A. Not sure. Is this considered highly

7 confidential, Mr. Stroo?

8 MR. JOHNSON: I don't need to know the
9 answer.

10 MR. STROO: I don't think so.

11 THE WITNESS: It varies since the rate
12 design that exists today is quite variable, it will vary
13 from rates. But suffice it to say that in the metro
14 St. Louis and Kansas City area there's a substantial
15 reduction. In the metro Springfield area it's somewhat
16 less.

17 BY MR. JOHNSON:

18 Q. The reason I asked is because I had
19 understood in response to my questions directed to
20 Ms. Kahnert earlier that GTE has a single access rate in
21 the state, and that it averages its rural and urban
22 exchanges to arrive at that access rate. What I'm trying
23 to understand is, if you have a single access rate for the
24 entire state, how can the cost -- how can there be a cost
25 differential between the urban and rural areas to justify a

1 \$6.15 increase for rural COS but a decrease of some
2 magnitude for urban COS?

3 A. Well, if you look at my rate structure,
4 you'll find that the rate structure is completely leveled
5 between metro and rural, and the differential is there
6 because of the disparity between the existing rate
7 structure and not my proposed rate structure.

8 My proposed rate structure only has a
9 differential between business and residence, because they
10 discovered a difference in the traffic usage between those
11 two classes of customers.

12 Q. I understood that you were proposing a
13 residential COS -- rural residential increase of \$6.15 and
14 a metropolitan residential decrease in some order of
15 magnitude.

16 A. Well, that's because today the rural
17 resident's rate is \$16. And for example, in the
18 metropolitan St. Louis area the resident's COS rate is
19 \$37.80. I'm proposing a single residence rate which
20 represents a decrease in the metro area but an increase in
21 the rural area. My rates are equivalent when you consider
22 metro versus rural.

23 MR. JOHNSON: Okay. That's all I have.

24 ALJ ROBERTS: Redirect?

25 MR. STROO: Just a little tiny bit.

1 REDIRECT EXAMINATION BY MR. STROO:

2 Q. The access rates that are in your cost
3 study, whose access rates are those?

4 A. The access rates that I used to prepare the
5 cost study were the access rates of any of the companies
6 that we terminate with.

7 Q. Would GTE's access rates have been used in
8 there?

9 A. GTE's access rates are not used in this.

10 Q. So the fact that GTE averages its access
11 rates has nothing to do with your cost study?

12 A. That's correct.

13 MR. STROO: Thank you.

14 ALJ ROBERTS: Thank you very much, sir.
15 You may step down.

16 (Witness excused.)

17 _____

18 ALJ ROBERTS: Go off the record.

19 (Off the record.)

20 (Witness sworn.)

21 _____

22 ALJ ROBERTS: Mr. Ensrud is on the stand
23 and has been sworn. I believe this is your witness,
24 Mr. Angstead.

25 MR. ANGSTEAD: Thank you, your Honor.

1 MICHAEL J. ENSRUD testified as follows:

2 DIRECT EXAMINATION BY MR. ANGSTEAD:

3 Q. Mr. Ensrud, will you please state your full
4 name and business address for the record?

5 A. Yes. My name is Michael J. Ensrud. My
6 business address is 6950 West 56th Street, Mission, Kansas
7 66202.

8 Q. And on whose behalf are you here today?

9 A. CompTel Missouri.

10 Q. And what is CompTel Missouri?

11 A. It is a trade association of six companies
12 who either are Missouri based or have large customer bases
13 within the state of Missouri.

14 Q. For the record who comprises CompTel
15 Missouri?

16 A. CGI, Dial US, LDD of the Cape, Value Line
17 of St. Joe, World Comp, and CNI.

18 Q. And are you the same Michael Ensrud who
19 caused to be filed in this action direct, rebuttal, and
20 surrebuttal testimony?

21 A. I am.

22 Q. And have you seen the documents that have
23 been marked as Exhibits 11, 12, and 13 in this proceeding?

24 A. Yes, I have.

25 Q. And are those true and accurate copies of

1 the direct, rebuttal, and surrebuttal testimony
2 respectively that you caused to be filed in this action?

3 A. Yes, they are.

4 Q. And do you have any corrections or
5 additions to your testimony at this time?

6 A. I -- yes. We provided a sheet of basically
7 grammatical corrections. I believe there's one that has a
8 cite where a page is wrong, but everything else is spelling
9 and grammar.

10 Q. Okay. Has that been marked as Exhibit 14
11 in this proceeding?

12 A. Yes, it has.

13 Q. And if I were to ask you the same questions
14 propounded in your direct, rebuttal, and surrebuttal
15 testimony today, would your answers as corrected be the
16 same?

17 A. As corrected, yes, they would. In addition
18 to that there was one point that was raised in surrebuttal
19 which I would like to address at the outset.

20 Q. Okay. And whose surrebuttal are you
21 referring to?

22 A. The surrebuttal of Ms. Bourneuf.

23 Q. Okay. And which portion of her surrebuttal
24 would you like to respond to?

25 ALJ ROBERTS: Excuse me. Is this a

1 correction to his testimony? Because that's the only thing
2 that we'll take at this point.

3 MR. ANGSTEAD: Okay. No. It wouldn't be a
4 correction to his testimony.

5 MR. BUB: How can you correct our
6 testimony?

7 MR. ANGSTEAD: I don't think I can.

8 ALJ ROBERTS: Well, you might. Redirect.
9 I'm sorry to interrupt.

10 MR. ANGSTEAD: That's okay. At this time I
11 would offer Mr. Ensrud's direct, rebuttal, and surrebuttal
12 testimony along with Exhibit 14, the corrections, into
13 evidence and offer this witness for cross-examination.

14 ALJ ROBERTS: And I'll show, if I may,
15 Exhibit 14 is entitled just Ensrud correction sheet.

16 MR. ANGSTEAD: That's fine.

17 ALJ ROBERTS: That works for everyone. Any
18 objection to the admission of 11, 12, 13, and 14?

19 (No response.)

20 ALJ ROBERTS: Hearing none, those exhibits
21 will be admitted.

22 (EXHIBIT NOS. 11, 12, 13, AND 14 WERE
23 RECEIVED IN EVIDENCE.)

24 ALJ ROBERTS: And the witness first goes to
25 AT&T.

1 MR. DEFORD: No questions, your Honor.
2 ALJ ROBERTS: MCI?
3 MR. CURTIS: No questions.
4 ALJ ROBERTS: GTE?
5 MR. STROO: No questions.
6 ALJ ROBERTS: TCG?
7 MS. FORREST: No questions.
8 ALJ ROBERTS: Southwestern Bell?
9 MR. BUB: None, your Honor.
10 ALJ ROBERTS: United?
11 MS. GARDNER: I just have a couple.
12 CROSS-EXAMINATION BY MS. GARDNER:
13 Q. Mr. Ensrud, your recommendation on page 9
14 and 10 of your direct, let me just make sure I understand.
15 When you say that under No. 3 and No. 4 that an analysis
16 was done to see whether 50 percent or more of the customer
17 base is better off, you are not talking about averaging the
18 customers. You're talking about a flat 50 percent are
19 better off so it's automatically converted. Is that
20 correct?
21 A. Right. In my opinion the degree of
22 complexity about some of these issues makes it more
23 conducive to an actual review of the customers whether he
24 ends up better off or worse off under COS than what he did
25 under toll. And I make the assumption that the customer

1 will essentially vote his pocketbook and -- I mean, a
2 ballot could take place, as I talk about in my surrebuttal,
3 but my initial choice would be it would be based upon the
4 analysis of toll compared to the cost.

5 Q. Okay. And would only those 50 percent and
6 greater customers that benefit be converted to the service,
7 or would all customers in the exchange?

8 A. No. As I've talked about, I think a number
9 of times, it's -- whole exchange or none would be my -- it
10 would be very much like traditional EAS.

11 Q. Okay. That was my question. It's very
12 much like EAS without the vote then?

13 A. Right. Right.

14 Q. Okay.

15 A. It's similar to what I would -- in relation
16 to EAS with the exception it's only 50 percent of the votes
17 instead of 65.

18 MS. GARDNER: That's all I have. Thank
19 you.

20 ALJ ROBERTS: Staff?

21 MS. MCGOWAN: No questions.

22 ALJ ROBERTS: Public Counsel?

23 MR. DANDINO: No questions, your Honor.

24 ALJ ROBERTS: Small Telephone Group?

25 MR. ENGLAND: No questions.

1 ALJ ROBERTS: Mid-Missouri Group?

2 MR. JOHNSON: Yes, please.

3 CROSS-EXAMINATION BY MR. JOHNSON:

4 Q. Mr. Ensrud, you were here yesterday and
5 today when Commissioner Crumpton was asking questions about
6 whether interexchange companies like your client should be
7 allowed to offer COS service?

8 A. Should be allowed to offer COS service? I
9 think you talked about us being allowed to offer 800
10 service, but I don't remember -- 800. But if that is the
11 question --

12 Q. As I understood your prefiled testimony,
13 you were opposed to the continuation of COS essentially
14 because it wasn't priced to cover its cost?

15 A. That's probably the primary objection.

16 Q. And as I understood your testimony, you had
17 the same opposition or criticism for both MCA and OCA
18 service as well?

19 A. It's my understanding that in many cases
20 they do not cover their underlying cost.

21 Q. Would your clients be willing to offer COS
22 in the same terms as it's currently ordered to be offered
23 today, which is \$16 for residential and \$33.50 for
24 business?

25 A. No. Like everyone said here, it's a money

1 loser.

2 Q. Your clients would not be able to offer the
3 service on those terms and make a profit. Is that fair?

4 A. No. In fact, probably in the long run, if
5 it was mandated, a number would go broke if we had enough
6 takers.

7 Q. As I understand your proposal, it has --
8 for keeping a plan if it meets two criteria. The first
9 criteria is that one-half of the subscribers have to have
10 an economic benefit based on their historical calling
11 patterns?

12 A. Correct.

13 Q. And the second criteria you have is that
14 the price of the service must cover its costs?

15 A. Right.

16 Q. I want to ask you a couple of questions
17 about that. If you're in a competitive environment
18 abandoned and there's different calling plans offered by
19 different companies such as the client group you represent,
20 how would the Commission make the first determination of
21 whether one-half of the subscribers in an exchange would
22 benefit?

23 A. You're saying in an environment --

24 Q. With a presubscribe to different plans.

25 A. It would be more difficult the more parties

1 who are there. Essentially what is happening today is that
2 the vast majority are Bell customers, but that would create
3 a problem.

4 Q. Okay. You would agree that it would be a
5 more difficult assessment if there were a multitude of --

6 A. Yes. If you had -- if you had 30 carriers
7 and -- it would be -- there would be some problems in
8 determining who had what and under what specific plan,
9 et cetera.

10 Q. Again, if we assume a competitive
11 environment with up to 30 carriers in an exchange, I want
12 to ask you a question about your second criteria. How
13 would the Commission determine, when the second criteria is
14 met, whether the price covers the cost?

15 A. The costs that I would be talking about
16 there is not specifically ours, but essentially what I'm
17 talking about is taking the traffic and reverting it back
18 to a true local type service. It would be the cost of
19 installing trunks and switching changes and et cetera to
20 convert what is essentially a toll service to what is truly
21 a local service.

22 The service would be dialed on a seven
23 digit basis and function much like EAS. It would not --
24 I'm not talking about a toll conversion there. I'm talking
25 about how much facilities and how much software and billing

1 changes and et cetera to convert that exchange from -- that
2 route from a toll route to basically a local route.

3 Q. Would you still have different competitive
4 entrants, maybe up to as many as 30, providing the services
5 in that exchange?

6 A. No. If this is a local, it would work just
7 like EAS, that Bell and you would come to some type of
8 agreement as to who provides what facilities. And that
9 cost could be determined between the petitioning exchange
10 and the targeted exchange by the LECs being the parties who
11 would get together and say my bundle of costs to make this
12 an old fashioned EAS route is \$10,000, mine is \$50,000.
13 You would add the two together, and that would be the type
14 of total cost that I would -- I am discussing there. Not
15 carrier cost.

16 Q. Okay. My last question is, if that system
17 were adopted by the Commission and 51 percent of the
18 customers with the economic benefit -- have an economic
19 benefit so they basically vote in by their pocketbook this
20 system, would you agree that the other 49 percent are then
21 subsidizing them to a certain extent?

22 A. Yes.

23 Q. So your system doesn't eliminate subsidies;
24 it just makes it more economically based?

25 A. And it also does another thing. At least

1 the person who's generating the subsidy has the potential
2 to use the service.

3 You do not have what is taking place today
4 where, if you have 12 percent of a customer who subscribed
5 to COS, they indeed are getting a break; they are the ones
6 who generate the cost that cause the subsidy, where the
7 remaining 88 percent pay their normal toll rates, and they
8 pay the subsidy there. Plus you have a whole other group
9 who never had any ability to utilize this specific route
10 who also contribute to the spreading of the costs.

11 There is a little bit of inequity in like
12 what you were talking about with the 41 percent. But
13 you've greatly lessened it because at least those 49 in
14 your example would not be paying -- let me give you a
15 numbers example. If the cost is \$10, people who only
16 generate two, three, \$4 of toll are now going to be forced
17 to pay the \$10. But they are not doubled up on by still
18 paying the normal toll.

19 So there is what you describe, but at least
20 there's the potential to use it. And you have eliminated
21 the normal toll calls. That doesn't even happen under
22 traditional COS. A person subsidizes the other, plus pays
23 his own way with the other. So that -- your point is
24 correct, but I would say mitigating because of the
25 situation that I described.

1 MR. JOHNSON: Thank you. That's all I
2 have.

3 ALJ ROBERTS: Commissioner Crumpton?

4 QUESTIONS BY COMMISSIONER CRUMPTON:

5 Q. Yes. Good afternoon.

6 A. Good afternoon, Commissioner.

7 Q. I won't ask you if you read the testimony.

8 But is it your position that CompTel Missouri members would
9 compete for the COS customers if COS was properly priced?

10 A. If it was -- with the underlying costs
11 justifying entry, we would certainly go ahead and compete
12 with the -- to offer both outbound service and 800 services
13 so long as the cost of access would not exceed the cost
14 of -- or the revenue -- not exceed the revenues that we
15 generate via the service offer.

16 Q. Right. And you do understand that I did
17 not suggest that your company go out of business backwards
18 by trying to receive a small sum of money for the
19 privilege --

20 A. Of serving --

21 Q. -- of paying out and going broke?

22 A. Right.

23 Q. You know I didn't mean that.

24 A. No. I realize that.

25 Q. Now, I have a number of questions.

1 A. Sure.

2 Q. And you'll have to be patient with me,
3 because I kind of put the questions in each piece of your
4 testimony. Basically your position is that COS is
5 anti-competitive with their current rate structure. Is
6 that --

7 A. Yes. That's one of the two major aspects.
8 That's the one that's probably more parochial to the
9 members, that we -- it takes traffic from us and creates an
10 environment where we can't actually compete or try to win
11 that traffic back.

12 Q. So it sort of like locks you out --

13 A. Yes, it does.

14 Q. -- of a certain part of the marketplace.
15 And if you pay taxes and you're a registered corporation
16 and do business in this state, you have a right to compete
17 for those customers, do you not?

18 A. That's our position.

19 Q. All right. Be patient with me, and I'll
20 get to this section. On page 14 --

21 A. Of my --

22 Q. Of your direct testimony. You -- the harm
23 done to carriers in competition --

24 A. Right.

25 Q. -- could you elaborate on this a little

1 bit, your response to the question is COS methodology
2 harmful?

3 A. Right. Again, I guess to go back to the
4 very foundation, we never perceived many of the routes that
5 are today covered by COS as having a true community of
6 interest. We viewed it as a select few customers who have
7 a calling pattern where you have high concentrations of
8 calling to a specific location.

9 With the accepted diversity of calling
10 patterns, there isn't much difference from our perspective
11 between that and somebody who has \$100 between point A and
12 point B under COS and somebody who has \$100 of calling
13 diversified throughout the whole LATA. For all the world
14 we can't see why one is deserving of subsidy when the other
15 is not. So we start from that premise.

16 And then the other thing is, I mean, unlike
17 MCI and AT&T and Sprint, we use dialers; we use ten triple
18 X dialing. So we actually had customers who were paying us
19 monies who we were serving when COS came along and deprived
20 us of that revenue source, and we were under the
21 impression -- I mean, when you look at the economic
22 reality, there's nothing you can do to go back and try to
23 re-win or recapture those customers, because the underlying
24 cost exceeds the cap, as I refer to it, that's priced by
25 the COS service.

1 Q. Is it your testimony that, if the service
2 is made a local service, that your company should be able
3 to resell those services?

4 A. Yes. I think in my surrebuttal while we --
5 I mean, when you look at it from a theoretical point of
6 view from the theory behind regulation, et cetera, we still
7 see it as a toll, as I've said before. But if others -- if
8 that's not the true consensus, if our definition is wrong
9 and what is going on here is truly a local service,
10 philosophically we may not agree, but we can compete in an
11 environment of that nature so long as we can resell. When
12 I use the term resell, I also include or take the broad
13 definition of that term to mean aggregation as well as
14 one-to-one sale.

15 Q. I want to call your attention to some of
16 your rebuttal testimony. There was some calculations that
17 I didn't quite understand. On page 26 as an example,
18 doubling the calling scopes.

19 A. Page 26. Yeah. That's where I'm looking
20 at, that if you were to go ahead -- I mean, I do not know
21 what would happen on a LATAwide plan. But with the select
22 areas that we have, I don't think it's an unfair
23 speculation or estimation that broadening the calling scope
24 of COS from what it is today to a LATAwide would double or
25 triple the traffic that would be carried and,

1 correspondingly, which we would expect to lose via that
2 manner.

3 And what those calculations basically do
4 is, if the rate dictated either by government fee audit or
5 by the market is \$30, but we would -- what we would have to
6 do is figure out how many minutes we think that that line
7 would carry and divide that back to figure out what the,
8 quote, break even point is for us to at least recover our
9 access cost. Now, that doesn't make it profitable, but
10 that is the first hurdle that we have to get over.

11 Q. Right.

12 A. You have to cover your access before you
13 become profitable.

14 Q. You mean you would have to also recover
15 other funds necessary to do your billing and collections
16 and other in other services?

17 A. Yes. Customer services. There's a whole
18 host of other activity.

19 Q. In the doubling calculation percent
20 reduction required is 251 percent -- I'm sorry or a
21 151 percent reduction.

22 A. Okay.

23 Q. If you reduce something 100 percent, it
24 disappears; it goes to zero. So is this maybe an error in
25 interpretation of the reduction?

1 A. What I'm am saying there is that the
2 current composite rate as I've done before, is 7.179 cents
3 a minute. The rate would have to go down to 2.86 if I'm
4 going to have a \$30 service but double the calling volumes
5 take place. Therefore, the access reductions would have to
6 be 151 percent of that composite rate, which means both
7 Bell's and the independents to get to the point where I
8 reach what I refer to as break even, where I've covered my
9 access. As I realize -- I guess the point is that it would
10 take dramatic reductions if you're going to have a price
11 capped at \$30, a very broad calling scope.

12 COMMISSIONER CRUMPTON: Let's see. I think
13 that took care of my questions. Thank you.

14 ALJ ROBERTS: Lost my order here. Recross
15 based upon questions from the bench, I think, goes first to
16 AT&T.

17 MR. DEFORD: No questions.

18 ALJ ROBERTS: MCI?

19 MR. CURTIS: No questions.

20 ALJ ROBERTS: GTE?

21 MR. STROO: No questions.

22 ALJ ROBERTS: TCG?

23 MS. FORREST: No thank you.

24 ALJ ROBERTS: Southwestern Bell?

25 MR. BUB: None, your Honor.

1 ALJ ROBERTS: United?
2 MS. GARDNER: None. Thank you.
3 ALJ ROBERTS: Staff?
4 MS. MCGOWAN: No questions.
5 ALJ ROBERTS: Public Counsel?
6 MR. DANDINO: No questions.
7 ALJ ROBERTS: Small Telephone Group?
8 MR. ENGLAND: No questions, your Honor.
9 ALJ ROBERTS: Mid-Missouri Group?
10 MR. JOHNSON: No questions. Thank you.
11 ALJ ROBERTS: And, Mr. Angstead, redirect
12 or questions based upon questions from the bench either
13 one?
14 MR. ANGSTEAD: I think based on the way
15 things went I'm not going to ask any questions.
16 ALJ ROBERTS: Don't want to correct Bell's
17 testimony?
18 MR. ANGSTEAD: No. I don't think I do.
19 ALJ ROBERTS: Thank you very much. Under
20 the circumstances I think this would be an opportune time
21 to quit for the day. I note the time, but I know that the
22 Commissioners are interested in witness Meisenheimer's
23 testimony and several -- three Commissioners are
24 unavailable at the moment. And I know we will not complete
25 Meisenheimer by the close of today in any event.

1 So with that we'll finish for the day.
2 We'll start first thing in the morning with
3 Ms. Meisenheimer. I appreciate your patience. Maybe we'll
4 finish tomorrow. We'll see how it goes.
5 MR. DANDINO: Eight-thirty?
6 ALJ ROBERTS: Eight-thirty, yes. I'm
7 sorry. Eight-thirty in the morning, please. Any requests
8 or motions before we go off the record?
9 (No response.)
10 ALJ ROBERTS: Mr. Stroo is excused. Yes,
11 Mr. England?
12 MR. ENGLAND: We're off the record?
13 ALJ ROBERTS: No. Not yet. And Mr. Ensrud
14 is finally excused.
15 (Witness excused.)
16 _____
17 ALJ ROBERTS: If there's nothing else, then
18 we'll go off the record.
19 WHEREUPON, the hearing of this case was
20 continued to 8:30 a.m., Wednesday, June 25, 1997.
21 _____
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25

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