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August 1, 2002

Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

FILED³
AUG 01 2002

Re: Case No. TR-2001-65

Missouri Public
Service Commission

Dear Mr. Roberts:

Enclosed for filing, please find an original and eight copies of the Rebuttal Testimony of William J. Warinner. Please note that Schedules WJW-2, WJW-3 and WJW-4 are marked "highly confidential" and therefore are filed under seal because they incorporate information received from Staff that was designated as highly confidential.

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

Sincerely,

Brian T. McCartney
Brian T. McCartney

BTM/da
Enclosures
cc: Parties of Record

Exhibit No.:
Issue: Cost of Access
Witness: William J. Warinner
Type of Exhibit: Rebuttal Testimony
Sponsoring Party:
 Holway Telephone Company
 KLM Telephone Company
 Iamo Telephone Company
 Green Hills Telephone Corporation
Date: August 1, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. TR 2001-65

**REBUTTAL TESTIMONY
OF WILLIAM J. WARINNER**

FILED³
AUG 01 2002

**Missouri Public
Service Commission**

ON BEHALF OF:

HOLWAY TELEPHONE COMPANY

KLM TELEPHONE COMPANY

IAMO TELEPHONE COMPANY

GREEN HILLS TELEPHONE CORPORATION

In the matter of an Investigation of the Actual Costs)
Incurred in Providing Access Service and the Access)
Rates to be charged by Competitive Local Exchange)
Telecommunications Companies in the State of)
Missouri)

Case No. TR-2001 - 65

County of
State of

Johnson)
Kansas)

AFFIDAVIT OF

WILLIAM J. WARINNER

William J. Warinner, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of William J. Warinner," that said testimony and schedules attached thereto was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.

William J. Warinner
William J. Warinner

Subscribed and sworn to before me this 30th day of July, 2002.

Kathleen T. Coyte
Notary Public

My Commission expires:

7/7/2004



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OF
WILLIAM J. WARINNER
MISSOURI ACCESS RATES
CASE NO. TR 2001-65

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1 **REVISED SCHEDULES**

2

3 **Q. DO YOU HAVE REVISIONS TO THE SCHEDULES ATTACHED TO**
4 **YOUR DIRECT TESTIMONY ON JULY 1, 2002?**

5 A. Yes. Based upon the revisions to the BJA cost study results, Schedules WJW-2
6 and WJW-3 have been revised and are attached to this testimony with the same
7 Schedule numbers as those in my Direct Testimony, with the notation "Revised
8 for Rebuttal Testimony".

9

10 **COST STUDIES PRESENTED IN THIS CASE**

11

12 **Q. WHAT COST STUDIES HAVE BEEN PRESENTED IN THIS CASE?**

13 A. Parties to this case who have filed cost studies for review by the Commission
14 include the Missouri Public Service Commission Staff (MPSC Staff),
15 Southwestern Bell Telephone L.P. d/b/a Southwestern Bell Telephone Company
16 (SWBT), ALLTEL Missouri, Inc. (Alltel), and the Small Telephone Companies
17 (i.e., STCG/MITG/Holway, et al.). While Sprint Communications Company L.P.
18 (Sprint) did not submit a separate cost study from the one used by the MPSC Staff
19 to model Sprint's costs, Sprint did offer substantial modifications to the inputs
20 and assumptions used by the MPSC Staff.

21

22 More specifically, the MPSC Staff's witness, Dr. Ben Johnson, PHD, (BJA),
23 submitted a Total Service Long Run Incremental Cost (TSLRIC) model, a Stand

1 Alone model, a Pro-rata and Weighted model. These models incorporated some
2 of the other companies' proprietary models and various BJA variables, i.e.
3 statistical analyses. SWBT witness, David J. Barch, submitted the results of
4 SWBT's Switched Access Long Run Incremental Cost (LRIC) Study, based upon
5 forward-looking costs. Alltel's witness Steve Brandon presented the cost study for
6 Alltel, based upon financial forecasts for the period of July 1, 2002, through June
7 30, 2003, allocated between jurisdictions and access service elements using Part
8 36/69 rules of the Federal Communication Commission (FCC). The STCG's
9 witness, Robert Schoonmaker, presented cost studies for all of the Small
10 Companies based upon actual expenditures incurred by the Small Companies for
11 the year 2000, allocated between jurisdictions and access service elements using
12 the FCC's Part 36/69, rules similar to Alltel. Sprint's witness, Randy F. Farrar,
13 accepted the BJA's "TSLRIC" cost study for Sprint with modified inputs to
14 comply with the FCC's Forward-Looking Economic Cost standard.

15
16 **Q. WHICH OF THE ABOVE COST STUDIES WOULD BEST REPRESENT**
17 **THE "ACTUAL" COST OF PROVIDING EXCHANGE ACCESS**
18 **SERVICE FOR POTENTIAL APPLICATION BY HOLWAY, et al.?**

19 A. The only cost study that was presented with direct testimony in this case, based
20 upon "actual" costs, is the one submitted by STCG witness Schoonmaker for all
21 of the Small Companies based upon the FCC's Part36/69 Rules for cost
22 companies. It should be noted that the study presented by Alltel utilized the same

1 cost allocation methodology as the Small Companies, but presented projected
2 costs rather than historical costs consistent with its interstate access tariff filing.
3

4 **Q. DOES THE COST STUDY PRESENTED BY SWBT PROVIDE A COST**
5 **METHODOLOGY THAT COULD BE APPLIED TO HOLWAY, et al.?**

6 A. In my opinion, no. SWBT presented a Long Run Incremental Cost (LRIC) study
7 for review by the MPSC in this proceeding. LRIC measures forward-looking,
8 hypothetical costs and does not recognize actual costs. LRIC also does not take
9 into consideration indirect or common costs which are relevant for the
10 establishment of access charges. SWBT's witness, Mr. Barch, states that "any
11 costs shared between or among a subset of services (i.e., shared costs) or shared
12 among all services the firm offers (i.e., common costs) are not part of a LRIC
13 study."¹ Historically, shared and common costs have been included in the
14 determination of both state and interstate access charges. Should the MPSC
15 decide to adopt an incremental costing methodology for setting access charges, it
16 would be a significant change from existing procedures, cause significant
17 reductions in intrastate access charges, and likely cause ILECs to pass these costs
18 to ratepayers through significantly increased local service rates.
19

20 **Q. DOES THE COST STUDY PRESENTED BY SPRINT PROVIDE A COST**
21 **METHODOLOGY THAT COULD BE APPLIED TO HOLWAY, et al.?**

¹ See Direct Testimony of David J. Barch, Case No. TR-2001-65, Pages 4 and 6.

1 A. No. Sprint proposes to use a Total Service Long Run Incremental Cost (TSLRIC)
2 methodology which incorporates the FCC's Forward-Looking Economic Cost
3 standard used in Missouri by Price Cap companies in connection with rate re-
4 balancing and in establishing prices for Unbundled Network Elements (UNEs).
5 The cost study proposed by Sprint is not applicable to Holway, et al. (as well as
6 most other rural ILEC's) because Holway, et al. are rate base/rate-of-return
7 regulated telecommunications carriers and not Price Cap carriers.

8
9 Sprint's witness, Randy G. Farrar, states that Missouri's telecommunications law
10 "directs the Commission (MPSC) to apply LRIC principle when it evaluates the
11 cost of intrastate access for Price Cap companies in connection with rate re-
12 balancing. See Section 392.245.9 RSMo."² Mr. Farrar further states that "In
13 arbitrations, the Commission has decided, it has consistently sought to set
14 unbundled network elements consistent with the FCC's Total Element Long
15 Run Incremental Cost (TELRIC), a FCC Forward Looking Cost Model."³
16 Inasmuch as Holway, et al. are neither Price Cap companies nor have they been
17 subject to UNE pricing in arbitration cases, Mr. Farrar's reasoning for using
18 TSLRIC is inapplicable to Holway, et al.

19
20 Moreover, the TSLRIC model proposed by BJA for Sprint is inappropriate
21 according to Sprint because "the manner in which BJA has performed its TSLRIC
22 cost study does not comply with this [the FCC's Forward Looking Cost]

² See Direct Testimony of Randy G. Farrar, Case No. TR-2001-65, Page 8. (Emphasis added.)

1 standard.”⁴ Mr. Farrar states that in general, the BJA cost analysis for Sprint
2 switched access cost contains the following flaws: (1) end office switching and
3 transport costs are understated; (2) tandem switching costs are overstated; (3)
4 annual charge factors use overstated depreciation lives, understated cost of
5 capital, and incorrect maintenance factors; (4) directly attributable shared
6 expenses are improperly excluded; and (5) common costs are not included.⁵
7

8 **Q. WHO STANDS TO BENEFIT THE MOST FROM THE USE OF AN**
9 **INCREMENTAL COSTING METHODOLOGY IN SETTING ACCESS**
10 **CHARGES?**

11 A. As indicated in the testimony of Mr. Barch, LRIC would establish the minimum
12 price or “price floor” for determining access charges. This position would be
13 favored by long distance providers who stand to reduce their access charge
14 expenses. To the extent the long distance markets are competitive, some of these
15 access charge reductions could be passed on to long distance customers in the
16 form of lower toll rates. In rural areas where long distance service is not as
17 competitive, customers would not likely see any benefit from reductions in IXC
18 access charge expenses, but would surely see increases in LEC charges for basic
19 local exchange services.
20

³ *Id.* at Page 7. (Emphasis added.)

⁴ See Direct Testimony of Randy G. Farrar, Case No. TR-2001-65, Pages 7 and 8.

⁵ See Direct Testimony of Randy G. Farrar, Case No. TR-2001-65, Page 5.

1 **Q. IF, BASED UPON THE DIRECT TESTIMONY OF SWBT AND SPRINT**
2 **WITNESSES, THE BJA COST MODELS ARE FLAWED AND SHOULD**
3 **NOT BE USED FOR SWBT AND SPRINT, SHOULD THE BJA STUDIES**
4 **BE UTILIZED FOR HOLWAY, et al.?**

5 **A.** No. First, if the BJA cost studies are not appropriate for SWBT and Sprint, then
6 they likewise are not appropriate for Holway, et al. Second, even if appropriately
7 performed, it would be extremely difficult to apply the forward looking cost
8 methodology presented by BJA to rural ILECs in Missouri. The usefulness of the
9 cost study data used by BJA was addressed in the Direct Testimony of Dr. Ben
10 Johnson where he states that the BJA cost studies focused primarily on the large
11 incumbent Local Exchange Carriers (ILECs) in Missouri.⁶ Dr. Johnson explains
12 that SWBT, Sprint, and Verizon:

13 all provided cost modeling tools they had internally developed.
14 Unfortunately, none of these models was readily capable of estimating
15 costs for any other carriers in the state. Moreover, the models provided
16 by SWBT weren't capable of estimating **loop costs**, which are an
17 important portion of the costs which **have historically been recovered**
18 **through switched access rates.**⁷

19 Dr. Johnson further states that "the loop modules provided by Sprint and Verizon
20 were structured around input data which was only available for their own service
21 territory. Since this data could not easily be obtained for the remainder of the
22 state, neither model provided a viable option for estimating costs in the remainder

⁶ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 4. (Emphasis added.)

1 of the state. . . . Accordingly, we [BJA] concluded that any reliance upon the
2 ILEC models would have to be limited.”⁸ Thus, there are numerous limitations to
3 the rural ILEC data proposed for use with the studies presented by BJA.

4
5 **Q. PLEASE EXPLAIN THE OTHER LIMITATIONS DISCLOSED IN THE**
6 **RURAL ILEC DATA PROPOSED FOR USE BY BJA IN THIS**
7 **PROCEEDING.**

8 A. Dr. Johnson initially planned to use the FCC model in developing cost studies;
9 however, the three largest ILECs in the state had strong objections to the planned
10 approach of BJA. After evaluating their complaints, BJA reduced its reliance on
11 the FCC model and used pieces of models and studies presented by other parties
12 in this case. As indicated by Dr. Johnson, BJA relied upon switching investments
13 using Telcordia’s Switching Cost Information System, (SCIS) for Sprint and
14 Verizon.⁹ SWBT provided copies of its Switching Information Cost Analysis Toll
15 (SICAT) and Network Usage Cost Analysis Tool (NUCAT), and BJA developed
16 analogous investment amounts for SWBT for switching costs.¹⁰ SWBT’s SBC
17 Program for Interoffice and Circuit Equipment Costing (SPICE) model, Sprint’s
18 Transport Cost Model (TCM) and Verizon’s Transport Module from its Integrated
19 Cost Model (ICM) were used in developing transport costs.¹¹

20

⁷ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 25. (Emphasis added.)

⁸ *Id.*

⁹ *Id.* at Page 37.

¹⁰ *Id.* at Page 55.

¹¹ *Id.* at Page 37.

1 Dr. Johnson states,

2 The switching and transport investments were converted into annual
3 costs using the portion of the FCC model which converts investments
4 into annual costs. Cost modeling algorithms developed by our firm were
5 used to convert resulting annual costs into per-minute costs.¹²
6

7 Dr. Johnson's Direct Testimony explains why the various models of the three
8 largest ILECs, as well as the FCC model, could not be used to establish exchange
9 access costs for Missouri carriers, without many revisions to the inputs. Dr.
10 Johnson also explains the difficulties he encountered with using the large ILEC's
11 models.¹³ In addition to these problems, BJA did not purchase the data to identify
12 actual customer locations, but relied upon a copy of the INDECTEC data, and the
13 "rural portions of the data base are largely estimated through the use of a 'road
14 surrogate' algorithm in conjunction with 1990 census data."¹⁴
15

16 **Q. PREVIOUSLY, YOU STATED THAT IT WOULD BE EXTREMELY**
17 **DIFFICULT TO APPLY THE BJA COST STUDIES TO HOLWAY, et al.**
18 **WILL YOU PLEASE EXPLAIN THAT STATEMENT?**

19 A. Yes. It would be extremely difficult for another party to use the financial data of
20 Holway, et al., and integrate the data with the BJA cost models. Dr. Johnson's

¹² See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 37.

¹³ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Pages 104 through 106.

¹⁴ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 69. (Emphasis added.)

1 Direct Testimony states that portions of the “large” ILEC’s proprietary studies
2 were used, some of the FCC data (which is required to be purchased) was
3 incorporated, and BJA performed “statistical analyses.” There are too many
4 variables and judgement items involved in the underlying cost studies to allow the
5 models to be used as a “standard” for the smaller ILECs. For example, the three
6 large ILECs identified by Dr. Johnson as the “focus” of the cost studies operate
7 under price-cap ILEC rules and have about 91.44% of the access lines in
8 Missouri. All but one of the thirty-seven Small ILECs representing the
9 STCG/MITG/Holway, et al. companies are rate base/rate-of-return regulated
10 companies and serve about 3.32% of the access lines in Missouri. Twenty-four of
11 the STCG/MITG/Holway, et al. companies use Part 36/69 cost allocation rules to
12 determine their interstate access revenues and revenue requirements and thirteen
13 derive their interstate revenues using Average Schedule settlements.

14
15 There is also a significant ongoing cost to maintain the data bases used in
16 conjunction with a forward looking cost model. The data bases must be
17 continually revised to reflect new line information, both quantities and location
18 derived from census block data or Global Positioning System (GPS) tracking.
19 Continual revisions are also required for new switching technologies and system
20 enhancements, new transmission technologies, depreciation rates, and expense
21 relationships. These data bases should also be maintained by geographic and
22 demographic areas if they are to be representative of the areas to which they will

1 be applied. If these data bases are not kept current, the results of these forward
2 looking cost models may not be considered just and reasonable.

3
4 **Q. WHAT CONCERNS DO YOU HAVE REGARDING THE COST STUDY**
5 **METHODOLOGIES PROPOSED BY BJA FOR USE WITH HOLWAY,**
6 **ET AL. IN THIS PROCEEDING?**

7 A. The major concern that I have for the cost study methodologies proposed by BJA
8 is the ability to manipulate the data to get a desired result from the study. Unlike
9 actual cost models where costs are known and measurable, forward looking cost
10 models generally rely on proxies or averages representing cost efficiency targets
11 in lieu of actual information. If someone doesn't like the results of the models,
12 they simply change the underlying assumptions for the proxies and new results
13 are provided. In most cases, these proxies have little or nothing to do with the
14 actual cost characteristics of the exchange to which they are being applied. This
15 is very evident in the testimony provided by SWBT, Sprint, and BJA in this
16 proceeding.

17
18 Forward looking cost models can also be designed to reflect the cost
19 characteristics of specific exchange areas to make them more representative of the
20 study areas to which they are applied. It is patently unfair to adopt a cost model
21 that assumes the same expense relationships (ratios) for the maintenance of plant
22 facilities throughout an entire state or region irrespective of demographic and
23 geographic differences, but that is what the BJA model proposes. In some cases,

1 these models do not promote operational efficiencies but a lower quality of
2 service in order to achieve unrealistic cost targets.

3
4 **Q. HAVE ANY OTHER FORWARD-LOOKING COST STUDIES BEEN**
5 **PREPARED FOR HOLWAY, ET AL. FOR PURPOSES OF THIS**
6 **PROCEEDING?**

7 A. No. However, unrelated to this case, a Forward-Looking Incremental Cost Model
8 (FLM) was prepared for Holway Telephone Company, as an alternative to the
9 FCC Synthesis Proxy models. The FLM was originally prepared on behalf of
10 Holway Telephone Company to assess the reasonableness of the FCC's Synthesis
11 Proxy model proposed for Universal Service Fund reform. The FLM was
12 developed using actual company data and cost relationships, and could be used as
13 a validation of the proxy model results presented by BJA using non-specific
14 company costs. The rates produced by the FLM for Switching and Transport
15 services for Holway were \$0.06514, which is more than the current rates for these
16 services of \$0.0424, and slightly more than the Small Company supported cost of
17 \$0.0622 for these exchange access elements. The comparative rates presented by
18 the BJA model are not available for Holway. I have included the results of the
19 FLM to support my testimony that Holway's existing access rates are "just and
20 reasonable" and not to suggest that the MPSC should require other ILECs to
21 develop results using the FLM or other surrogate model.

1 **THE USE OF THE COST STUDIES**

2 **Q. WHAT ARE YOUR CONCERNS REGARDING THE USE OF THE COST**
3 **STUDIES PRESENTED IN THIS CASE?**

4 A. My first concern is that a forward-looking cost study will be used to establish the
5 prices for the exchange access services. From Dr. Johnson's Direct Testimony,
6 one could conclude that many of the End Office Switching and Local Transport
7 rates need "substantial rate reductions."¹⁵ However, Dr. Johnson's Direct
8 Testimony further states:

9 When all of the different rate elements are totaled together, the
10 comparison looks more reasonable. In total, the existing rates generally
11 do not exceed the stand alone costs, and thus one cannot say that the IXC's
12 [interexchange carriers] are having to subsidize other customers on an
13 overall basis. . . . None of the individual rates are less than TSLRIC costs,
14 and thus it is fair to say that none of the existing rates fall below this price
15 floor.¹⁶

16
17 The "pricing" for Holway, et al.'s current exchange access Intrastate Carrier
18 Common Line (CCL) element was initially calculated to ensure that the
19 Companies remained "revenue neutral" to the "pool draws" when the Intrastate
20 InterLATA Access Pool (approximately 1986) and the Intrastate InterLATA
21 Access Pool (approximately 1988) were eliminated. The InterLATA Traffic
22 Sensitive rates "mirrored" the then existing Interstate rates and, for the most part,

¹⁵ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 126.

1 were not changed in 1988. Subsequent revisions to Holway, et al.'s exchange
2 access rates were the result of other proceedings and were implemented either on
3 a "revenue neutral" basis or in the context of a general rate case or earnings
4 investigation.

5
6 **Q. IS IT POSSIBLE TO USE THE COST STUDIES PRESENTED BY SWBT,**
7 **SPRINT AND BJA FOR PRICING OF EXCHANGE ACCESS SERVICES**
8 **FOR HOLWAY, ET AL.?**

9 A. In my opinion, no. First of all, SWBT and Sprint are Price-Cap companies that
10 have negotiated the use of forward looking cost models in various proceedings at
11 both the federal and state levels. Therefore, these companies advocate the use of
12 models that they have previously supported for "costing" purposes. The MPSC
13 should carefully examine the use of the models supported by SWBT, Sprint and
14 BJA for identifying "actual" costs of exchange access services for Holway, et al.
15 SWBT's witness, Mr. Barch, states, "A fundamental characteristic of LRIC is to
16 measure forward-looking costs. . . . As such, LRIC methodology does not
17 recognize historical embedded costs relevant to cost identification."¹⁷ A LRIC
18 study does not include any costs shared between services; rather, "LRIC
19 establishes the *price floor* for a service."¹⁸ Mr. Barch explains, "Pricing at LRIC
20 would allow a firm neither the recovery of shared costs involving switched access

¹⁶ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 126. (Emphasis added.)

¹⁷ See Direct Testimony of David J. Barch, Case No. TR-2001-65, Page 6.

¹⁸ *Id.* at Page 7.

1 nor permit contribution toward recovery of a firm's common (i.e., overhead)
2 costs."¹⁹

3
4 Dr. Johnson's comments on TSLRIC are similar to that of SWBT's witness, Mr.
5 Barch. Dr. Johnson states, "[A] carrier that enjoys economies of scale and scope
6 cannot recover the totality of its costs if it sets all of its prices equal to TSLRIC.
7 TSLRIC estimates can appropriately be used as a pricing floor, but they don't
8 necessarily provide a valid indication of an optimal price level."²⁰ Dr. Johnson
9 also states that "the FCC hasn't endorsed using its model for any purpose other
10 than administration of the federal universal service fund."²¹

11
12 **Q. WHAT OTHER CONCERNS DO YOU HAVE REGARDING THE**
13 **ADOPTION OF COST METHODOLOGIES CAUSING POTENTIAL**
14 **REDUCTIONS IN RATES FOR INTRASTATE ACCESS SERVICES?**

15 A. Should the MPSC adopt a cost methodology in this proceeding that results in any
16 significant reduction in intrastate access charges, a corresponding increase in
17 other rates would be required to make the companies whole. For every \$ 0.01 per
18 minute reduction in intrastate access charges based upon 2000 demand units, the
19 revenue neutral impact for Holway, et al., would result in a local service rate
20 increase, averaged collectively, of \$3.23 per month, per line. The individual
21 company and composite local service rate impacts are presented on Schedule

¹⁹ See Direct Testimony of David J. Barch, Case No. TR-2001-65, Page 7.

²⁰ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 22-23.

²¹ See Direct Testimony of Ben Johnson, PHD, Case No. TR-2001-65, Page 33.

1 WJW-4 attached to this testimony. Assuming a \$0.03 per minute reduction in
2 intrastate access charges were implemented, the impact on local rates would be
3 three times the local increases presented on Schedule WJW-4 attached.
4

5 **Q. HOW WOULD THESE RATE INCREASES BE PERCEIVED BY THE**
6 **RATEPAYERS OF THESE COMPANIES?**

7 A. Holway and Green Hills have basic local rates much higher than the three large
8 ILEC's that were used as the "focus" of Dr. Johnson's cost studies, while IAMO
9 and KLM have basic local rates close to the range of the large ILEC's lowest rate
10 bands. The existing basic local exchange rates of all STCG/MITG/Holway, et al.
11 companies are presented on Schedule WJW-2, Page 1 of 2. In my opinion,
12 Holway and Green Hills would not be able to economically sustain local rate
13 increases of \$3.60 and \$3.52 per month per line. IAMO and KLM would have to
14 provide additional value to the customer to justify their respective increases while
15 maintaining revenue neutrality. There should be no shift to basic local service
16 rates without benefit to the local ratepayer, possibly through expanded local
17 calling, or a mandated (and enforced) reduction in toll rates by the IXC's to reflect
18 the reduction in access rates which translate into expense savings for the IXC's.
19 As an alternative to increasing basic local rates, the MPSC could examine the use
20 of the high-cost portion of the Missouri Universal Service Fund (MoUSF, Case
21 No. TO-98-329) for the necessary revenue neutral amounts required to fund
22 intrastate exchange access reductions, if ordered. However, as stated in my Direct

1 Testimony,²² the current exchange access service rates of Holway, et al. are “just
2 and reasonable.”

3
4 **SUMMARY AND CONCLUSION**
5

6 **Q. WILL YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?**

7 A. Yes, I will. In order to establish a “standard” costing methodology for all of the
8 ILECs in the State, it is necessary to examine the rules under which the various
9 ILECs operate. There are different rules for competitive, price-cap and rate
10 base/rate-of-return regulated telecommunications carriers. The MPSC requested
11 cost studies based upon “actual” costs. SWBT, Sprint and Dr. Johnson (BJA)
12 provided forward-looking costing methods that utilized proprietary models and/or
13 inputs that were specifically tailored to meet certain criteria. The forward-looking
14 data is not readily available, and there seem to be many forward looking models
15 that can be manipulated to produce a wide range of access exchange costs, from
16 an average TSLRIC cost for Small Companies of \$.0050 to an average stand
17 alone cost of \$.3714. Unfortunately, some models, such as the FCC Model, rely
18 on data from outside sources, (i.e. loop identification), and the information must
19 be purchased on an individual company basis.

20
21 The costing studies presented by the Small Companies utilized actual cost data
22 and industry standard methodology (Part 36/69). Interstate factors are frozen at

²² See Direct Testimony of William J. Warinner, Case No. TR 2001-65, Pages 18 and 19.

1 the 2000 level, and the interstate exchange access rates and related end-user rates
2 are determined by the FCC (whose recent rulings increased the interstate
3 Subscriber Line Charge to \$6.00 for a residential customer, whether they place a
4 long distance call or not). The balance of Holway, et al.'s revenue requirement is
5 rate base/rate-of-return regulated by the MPSC. It is, therefore, in my opinion,
6 necessary for the MPSC to consider the actual intrastate costs, based upon the
7 frozen factors and related accepted interstate methodologies, as provided by the
8 STCG/MITG/Holway, et al. This is the only cost study presented that produces
9 actual known and measurable costs consistent with the cost characteristics of the
10 study areas to which they apply.

11
12 Finally, Holway, et al.'s exchange access rates are "just and reasonable". Any
13 reduction to exchange access rates must be accomplished on a revenue neutral
14 basis; there should be no shift to local service rates without benefit to the local
15 ratepayer; and the MPSC should examine the use of the high-cost portion of the
16 MoUSF for the revenue neutral amounts necessary to fund intrastate access
17 charge reductions if the MPSC determines that such a reduction is in the public
18 interest.

19
20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 **A.** Yes, it does.

SCHEDULE WJW-2

HIGHLY CONFIDENTIAL

SCHEDULE WJW-3

HIGHLY CONFIDENTIAL

SCHEDULE WJW-4

HIGHLY CONFIDENTIAL