

FILED  
MAY 28 1997  
MISSOURI  
PUBLIC SERVICE COMMISSION

EXHIBIT NO.: \_\_\_\_\_  
ISSUE: COS ALTERNATIVES  
WITNESS: ROBERT C. SCHOONMAKER  
SPONSORING PARTIES: THE SMALL TELEPHONE  
COMPANY GROUP,  
CASE NO.: TW-97-333

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

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


AFFIDAVIT OF ROBERT C. SCHOONMAKER

Robert C. Schoonmaker, of lawful age, being duly sworn, deposes and states as follows:

1. My name is Robert C. Schoonmaker. I am employed by GVNW Inc./Management as a Vice President.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 10 and ~~Revised Schedule RCS-2~~ and Schedule RCS-3.
3. I hereby affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief and that the information contained in the attached schedules is also true and correct to the best of my knowledge and belief.

  
Robert C. Schoonmaker

Subscribed and sworn to before me this 23d day of May, 1997.

  
Notary Public

My Commission expires: 8-14-97



REBUTTAL TESTIMONY OF ROBERT C. SCHOONMAKER

1 Q. Would you please state your name and address.

2 A. My name is Robert C. Schoonmaker and my business address is 2270 La Montana  
3 Way, Colorado Springs, Colorado 80918.

4 Q. Are you the same Robert C. Schoonmaker that previously filed direct testimony in  
5 this case?

6 A. Yes, I am.

7 Q. What group do you represent in this proceeding?

8 A. I represent the small incumbent telephone companies listed in Schedule RCS-1 of  
9 my previously filed direct testimony, collectively referred to as the Small  
10 Telephone Company Group or STCG.

11 Q. What is the purpose of your rebuttal testimony?

12 A. I will respond to the direct testimony of several of the parties in this case  
13 regarding a number of different issues.

14 Q. As you reviewed the direct testimony filed by the various witnesses in the case are  
15 there any overriding themes that you are concerned with that are not getting  
16 adequate attention?

17 A. Yes. I am concerned that, in general, customer needs, wants, expectations, and  
18 desires are not being adequately considered by many of the witnesses. While "lip-  
19 service" is being given to those concerns, at most, consideration is not being given  
20 to the major customer concerns that led to establishment of COS. I see those

1 concerns as a need for an inexpensive service to provide calling to and from areas  
2 with which both individuals and communities have a significant calling interest.  
3 These needs were expressed, prior to the adoption of COS and the Metropolitan  
4 Calling Area (MCA) service, in the series of proceedings which I described in my  
5 direct testimony, through complaints to the Commission, through complaints to  
6 state legislators, through legislation proposed in the legislature at various times,  
7 and through public hearings throughout the state. COS and MCA were  
8 implemented to meet these expressed customer needs and public pressure and  
9 these services have largely met those concerns. Throughout the testimony of  
10 many of the witnesses, these concerns appear to have been largely relegated to the  
11 background. These witnesses instead concentrate on industry technical concerns,  
12 the current costs associated with COS, regulatory changes adopting a competitive  
13 paradigm which theoretically will benefit customers, and proposals for a variety  
14 of changes which will, to a greater or lesser extent, undo the solution that was  
15 implemented only a few years ago to a long standing problem.

16 Q. What are some of the solutions that are being proposed that ignore the current  
17 service and the apparent customer satisfaction with the service?

18 A. MCI through witness Krause and AT&T through witness Lovett basically propose  
19 that COS be eliminated and that "market forces" will provide consumers with  
20 "...more choices, better service, and the lowest possible prices..." ( the words of  
21 Mr. Krause on page 3 of his testimony). They suggest that current 800 offerings  
22 can best meet the return or two-way calling needs of the customers. However,  
23 these witnesses do not offer any specific plans that their companies have or will

1 implement to demonstrate that customers will be better served. I believe that the  
2 reason for this is that the customers will pay considerably more under any plans  
3 these witnesses have in mind and that the prices will not be nearly as low as  
4 customers currently pay for COS.

5 GTE witnesses Kahnert and Evans offer a proposed one-way reciprocal offering  
6 that would eliminate the two-way feature of the current COS offering and offer  
7 the remaining one-way service at a rate difference that varies by subscriber type,  
8 but that includes for rural COS customers an increase of over \$6.00 per month (or  
9 nearly a 40% increase). While their proposal is based on their calculation of the  
10 cost of providing the service, it is not likely to satisfy the customer needs, wants,  
11 desires, that initially caused the Commission to establish COS.

12 Southwestern Bell Telephone Company (SWBT) witnesses propose that two-way  
13 COS be replaced by a one-way only offering based on individual company, cost  
14 based prices. This proposal returns the service partially to its origin, the initial  
15 one-way optional offering that was found unacceptable by the Commission, but at  
16 a price likely to be higher than that unsatisfactory offering and with hidden, but  
17 nevertheless significant, cost shifts that primarily benefit SWBT at the expense of  
18 other companies' subscribers.

19 Finally, United witness Harper and Comptel witness Ensrud propose that the  
20 Commission replace COS with mandatory EAS. If one reviews the history of  
21 proceedings leading to the establishment of COS, it will be found that the  
22 mandatory nature of EAS and the lack of satisfactory pricing mechanisms for that  
23 service was the beginning of the many years of proceedings that finally led to the

1 establishment of COS. Unless there are substantial differences in how EAS was  
2 will be priced now than there was then, those same problems will resurface with  
3 any proposal to return to mandatory EAS offerings.

4 Q. Can you quantify the benefits that COS customers receive as a result of the  
5 current COS offering?

6 A. I can provide an estimate of those benefits. For the COS routes with petitioning  
7 exchanges served by the STCG and Mid-Missouri Group, there were 5,749 COS  
8 access lines in service during the periods studied (primarily April, 1996). Those  
9 access lines were billed a total of approximately \$1.3 million in COS charges  
10 annually or about \$218 per customer. The originating COS calls generated by  
11 those customers, rated at normal toll rates, would equal approximately \$3.5  
12 million or \$616 per access line. In addition, "return" COS calls terminating from  
13 the target exchange to the petitioning exchange, again rated at normal toll rates,  
14 would equate to approximately \$3.9 million or \$687 per access line. This analysis  
15 is similar to my that presented in my direct testimony in Case No.TO-97-220  
16 though the data has been updated somewhat.

17 On a statewide basis, with GTE, United, and SWBT COS customers included, there are a  
18 total of approximately 17,600 COS subscribers. I estimate that these subscribers  
19 pay approximately \$3.7 million in COS charges annually. At normal toll rates, I  
20 estimate on an order of magnitude basis that these subscribers generate  
21 approximately \$10.6 million in originating COS calls from the petitioning  
22 exchange and receive approximately \$7.7 million in "return" COS calls from the

1 terminating exchanges. In considering its course of action in regard to COS the  
2 Commission needs to evaluate these customer impacts in relationship to the  
3 proposals presented.

4 Q. Have some of the parties attempted to expand the scope of the proceeding beyond  
5 that which it appears that the Commission intended?

6 A. I believe that they have. The Commission's order establishing this docket  
7 specifically asked that two alternatives to COS be discussed and indicated its  
8 intent to primarily focus on those two alternatives. It also indicated that it did not  
9 intend to change the classification of COS from its current toll classification. I  
10 believe that this was done to try to limit the focus of this proceeding so that a  
11 decision could be reached more quickly and the implementation of intraLATA  
12 presubscription could go forward in harmony with the intent of the  
13 Telecommunications Act of 1996. While the Commission did not limit parties  
14 from presenting other proposals, it seems that the scope and number of those  
15 alternatives has detracted from the intent to move this proceeding forward  
16 expeditiously. We support the Commission's intent to focus on the two  
17 alternatives presented without trying to completely relitigate the local versus toll  
18 issue.

19 Q. SWBT witness Taylor, in his testimony, presents comparisons of the current  
20 revenues for COS with the access charges paid. Is the fact that the access  
21 revenues exceed the billed COS revenues an unexpected or unanticipated result?

22 A. No, it is not. When COS was modified in Case No. TO-92-306, the Commission  
23 specifically recognized that the revenues from COS would be less than the

1 expenses associated with the access charges paid for the service and provided for  
2 a "revenue neutral" calculation for SWBT and the other Primary Toll Carriers  
3 (PTCs). They were allowed to raise rates other than the COS rates (in addition to  
4 increases, at that time, in the COS rates themselves), in order to offset the revenue  
5 losses associated with implementing the revised COS.

6 Q. Was cost a primary factor in establishing the COS rates?

7 A. No, the rates established were not related to the cost of providing service. The  
8 rates established by the Commission were based on a subjective determination by  
9 the Commission of the value of the service to customers. The Commission's  
10 primary focus was to establish a service that would meet the interexchange calling  
11 demands of customers, not on setting rates that would cover the specific access  
12 charges and other costs associated with the service. The Commission probably  
13 also recognized that although this particular segment of intraLATA toll service  
14 would not be profitable that intraLATA toll services overall still would be.

15 Q. Mr. Taylor's testimony had some analysis of the impacts of various changes in  
16 COS from the current plan to alternatives which he discussed for a limited number  
17 of companies whose data he had available at the time. Have you completed any  
18 analysis which shows the impact on all the STCG and Mid-Missouri companies  
19 that provide COS of proposed changes to the one-way reciprocal plan with the  
20 originating company responsible for payments as Mr. Taylor has proposed as an  
21 alternative?

22 A. Yes, I have made an analysis which approximates that impact. In order to do this  
23 I have made some simplifying assumptions which may not reflect the reality of

1 customer decisions in such an environment, but which nevertheless provide some  
2 "order of magnitude" projections which need to be considered before any major  
3 structural changes are made. First, I have assumed that the level of COS traffic in  
4 both directions would remain unchanged. While I presume that the target to  
5 petitioning traffic would decrease somewhat because all customers in the target  
6 exchange that call current COS subscribers are not likely to subscribe to the one-  
7 way reciprocal COS, I have no ready way of estimating what level of change that  
8 might cause. Secondly, I have assumed that the one-way reciprocal rate would be  
9 50% in each direction as the Staff has proposed and that the number of subscribers  
10 in the target exchange would equal the number of current COS subscribers in the  
11 petitioning exchange. This is unlikely, but I also don't have a ready way to  
12 estimate what that reduction might be.

13 My analysis is presented in Schedule RCS-3. Page 1 shows the compensation  
14 both the secondary companies and the PTCs (in total) receive under the current  
15 COS. Page 2 shows the compensation that could be expected under the one-way  
16 reciprocal environment where the originating company was responsible for paying  
17 access rates to the terminating company. I have assumed that the traffic would  
18 continue to be treated as toll traffic and thus subject to all access rate elements.  
19 Page 3 shows the change in compensation for each STCG and Mid-Missouri  
20 group company between the two plans. In total, the STCG and Mid-Missouri  
21 companies would need approximately \$2.7 million additional revenues from their  
22 customers to be revenue neutral with this proposed change. The PTC's (primarily  
23 SWBT) would receive a \$2.7 million combined revenue increase and expense



1 decrease as a result of the change. Overall, with the assumptions that have been  
2 made, the \$2.7 million estimate probably underestimates the impact. -

3 Q. Have you performed a similar analysis in regard to the 800/888 provisioning  
4 proposal?

5 A. No, I haven't. If that proposal is provisioned as a toll service with the PTCs  
6 providing the service, there would be little change in the compensation from the  
7 current COS offering. There may be some reduction in subscribers and in return  
8 calling because of the additional cumbersome nature of the 800 number, but  
9 otherwise I would anticipate the results to be quite similar to the existing offering.

10 Q. SWBT witness Bourneuf's testimony identifies two main disadvantages of the  
11 800-number COS proposal, i.e. the depletion of 800/888 numbers and customer  
12 dissatisfaction with the need for two telephone numbers. Do you believe that  
13 these are serious deficiencies with the 800-number proposal?

14 A. No. While I agree that they make the proposal less than ideal, they do not appear  
15 to be serious impediments to adopting the 800-number proposal.

16 Q. Do you think customers will express some dissatisfaction with having to have an  
17 800/888 number in addition to their regular number so they can continue to have  
18 two-way COS?

19 A. Yes, I believe that will cause some dissatisfaction. I am sure that the COS  
20 customers would prefer that COS remain unchanged and that it be provided as it  
21 is today. However, while the service will be more cumbersome with customer's  
22 having to have an 800/888 number, the 800 proposal still leaves them with a two-  
23 way service, one of the very desirable features of COS. When the Commission

1 initially implemented COS, it required companies to offer both a one-way and a  
2 two-way option. The two-way option proved to be much more desirable to  
3 customers, so much so that in revising COS in Case No. TO-92-306, the  
4 Commission eliminated the one-way offering. While I believe that customers will  
5 find having to have an 800 number associated with their COS offering somewhat  
6 cumbersome, they will find that much more desirable than having only a one-way  
7 offering as several parties in this proceeding suggest.

8 Q. Does the argument that using the 800 proposal will deplete number resources for  
9 800/888 service generally have significant validity?

10 A. I do not believe that it does. Both Ms. Bourneuf and staff witness Smith suggest  
11 this as a reason why the 800 proposal should not be implemented. However, it  
12 appears to me that no real comparison of the numbers required to implement the  
13 800 COS proposal to national demand for 800/888 number assignments has been  
14 made. Converting COS to the 800 proposal will have next to no impact on  
15 national 800/888 number assignments.

16 Based on Schedule RCS-2 filed with my direct testimony there are approximately  
17 18,000 subscribers to COS. Ms. Bourneuf's Schedule 2-4 indicates that the FCC  
18 has allocated 633,251 numbers from the 888 NPA to be assigned monthly.  
19 Assuming 22 work days per month 28,784 numbers can be assigned per day.  
20 Thus the assignment of 800/888 numbers to all 18,000 COS subscribers would  
21 equate to slightly more than 60% of one day's national allocation of 800/888  
22 numbers. I do not believe that moving the 800/888 exhaust time by a mere part of  
23 a day will have any significant impact on the industry's efforts to implement

1 another toll-free calling NPA. The Commission should not consider the 888  
2 exhaust date as an issue that it has to be concerned with in making its decision on  
3 COS.

4 Q. What is your overall recommendation regarding COS?

5 A. We believe customers would be most satisfied if COS was not altered at all. If  
6 such alternations are necessary in order to meet intraLATA presubscription  
7 requirements, we believe that the 800/888 proposal provides the least disruption  
8 to the customers and should be implemented under the Commission's current  
9 assumption that it be as a toll service provided by the PTCs. I would also reiterate  
10 my recommendation made in direct testimony that if the Commission believes  
11 that it should implement one of the other proposals, it should not do so until COS  
12 customers have been notified of the proposed change so that they can have an  
13 opportunity to participate in this docket in public hearings.

14 Q. Does this conclude your rebuttal testimony?

15 A. Yes, it does.

HIGHLY CONFIDENTIAL

Schedule RCS-3  
Page 3 of 3

STCG and Mid-Missouri Group Telephone Companies  
Change from Current COS to One-Way Reciprocal COS-Orig Responsibility  
Impact on Petitioning Company

Company Name	Total Compensation Current COS	Total Compensation One-Way Reciprocal	Total	Impact per Acc. Line/Month
ALLTEL	\$ 1			
BPS				
Cass County				
Chariton Valley				
Craw-Kan				
Goodman Tel				
Grand River				
Green Hills				
Kingdom				
KLM				
Mark Twain				
Mid Missouri				
Modern				
NE Missouri				
New Florence Tel				
New London				
Peace Valley Tel				
Stoutland				
Total Small Co.	\$ 4,149,853	\$ 1,384,336	\$ (2,765,517)	

STCG and Mid-Missouri Group Telephone Companies  
One-Way Reciprocal COS-Orig Responsibility  
Impact on Target Exchange PTC

Company Name	Total Compensation Current COS	Total Compensation One-Way Reciprocal	Total
ALLTEL	\$		
BPS			
Cass County			
Chariton Valley			
Craw-Kan			
Goodman Tel			
Grand River			
Green Hills			
Kingdom			
KLM			
Mark Twain			
Mid Missouri			
Modern			
NE Missouri			
New Florence Tel			
New London			
Peace Valley Tel			
Stoutland			
Total Small Co.	\$ (2,894,679)	\$ (129,162)	\$ 2,765,517

HIGHLY CONFIDENTIAL

HIGHLY CONFIDENTIAL

Schedule RCS-3  
Page 2 of 3

STCG and Mid-Missouri Group Telephone Companies  
One-Way Reciprocal COS-Orig Responsibility

Company Name	COS Billed Rev.	Impact on Petitioning Company				Total
		Orig Comp @ Orig Exch	Term Comp @ Orig Exch	Orig Comp @ Term Exch	Term Comp @ Term Exch	
ALLTEL	\$					
BPS						
Cass County						
Chariton Valley						
Craw-Kan						
Goodman Tel						
Grand River						
Green Hills						
Kingdom						
KLM						
Mark Twain						
Mid Missouri						
Modern						
NE Missouri						
New Florence Tel						
New London						
Peace Valley Tel						
Stoutland						
Total Small Co.	\$ 627,587	\$ -	\$ 2,212,365	\$ -	\$ (1,455,816)	\$ 1,384,336

STCG and Mid-Missouri Group Telephone Companies  
One-Way Reciprocal COS-Orig Responsibility  
Impact on Target Exchange PTC

Company Name	COS Billed Rev.	Impact on Target Exchange PTC				Total
		Orig Comp @ Orig Exch	Term Comp @ Orig Exch	Orig Comp @ Term Exch	Term Comp @ Term Exch	
ALLTEL	\$					
BPS						
Cass County						
Chariton Valley						
Craw-Kan						
Goodman Tel						
Grand River						
Green Hills						
Kingdom						
KLM						
Mark Twain						
Mid Missouri						
Modern						
NE Missouri						
New Florence Tel						
New London						
Peace Valley Tel						
Stoutland						
Total Small Co.	\$ 627,587	\$ -	#####	\$ -	\$ 1,455,618	\$ (129,162)

NOTE:

- 1 - Access calculated based on discounted CCL rates
- 2 - Target exchange is assumed to be PTC owned to simplify calculations.
- 3 - Assumes no changes in traffic, 50% of end user revenue is billed in originating and target exchanges.

HIGHLY CONFIDENTIAL

HIGHLY CONFIDENTIAL

Schedule RCS-3  
Page 1 of 3

STCG and Mid-Missouri Group Telephone Companies

Current COS Compensation

Impact on Petitioning Company

Company Name	COS Billed Rev.	Orig Comp @ Orig Exch	Term Comp @ Orig Exch	Orig Comp @ Term Exch	Term Comp @ Term Exch	Total
ALLTEL	\$					
BPS						
Cass County						
Chariton Valley						
Craw-Kan						
Goodman Tel						
Grand River						
Green Hills						
Kingdom						
KLM						
Mark Twain						
Mid Missouri						
Modern						
NE Missouri						
New Florence Tel						
New London						
Peace Valley Tel						
Stoutland						
Total Small Co.	\$ -	\$ 1,937,488	\$ 2,212,365	\$ -	\$ -	\$ 4,149,853

STCG and Mid-Missouri Group Telephone Companies

Current COS Compensation

Impact on Target Exchange PTC

Company Name	COS Billed Rev.	Orig Comp @ Orig Exch	Term Comp @ Orig Exch	Orig Comp @ Term Exch	Term Comp @ Term Exch	Total
ALLTEL	\$					
BPS						
Cass County						
Chariton Valley						
Craw-Kan						
Goodman Tel						
Grand River						
Green Hills						
Kingdom						
KLM						
Mark Twain						
Mid Missouri						
Modern						
NE Missouri						
New Florence Tel						
New London						
Peace Valley Tel						
Stoutland						
Total Small Co.	\$ 1,255,174	\$(1,937,488)	\$(2,212,365)	\$ -	\$ -	\$ (2,894,679)

NOTE:

1 - Access calculated based on discounted CCL rates

2 - Target exchange is assumed to be PTC owned to simplify calculations.

HIGHLY CONFIDENTIAL