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July 1, 2002

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

Re: TR-2001-65

Dear Mr. Roberts

Enclosed for filing on behalf of the Small Telephone Company Group, please find an original and eight (8) copies of the direct testimony of Robert C. Schoonmaker. Please note that Schedules RCS-2 through 8 are designated "Proprietary" as they contain confidential financial and business information.

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

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

Sincerely,

W.R. England, III

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

Exhibit No..:____________

Issue: Investigation of Exchange Access Costs
Witness: Robert C. Schoonmaker
Type of Exhibit: Direct Testimony
Sponsoring Party: Small Telephone Company Group
Case No.: TR-2001-65
Date: July 1, 2002

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

[In the Matter of an Investigation of the	)
Actual Costs Incurred in Providing Exchange	) Case No. TR-2001-65
Access Service and the Access Rates to be	)
Charged by Competitive Local Telecommunications	)
Companies in the State of 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 Consulting, Inc. as a Vice President.

2. Attached hereto and made a part hereof for all purposes is my direct testimony with accompanying schedules.

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

Robert C. Schoonmaker

Subscribed and sworn to before me this 28th day of June, 2002.

Sharon L. McDonald Notary Public

My Commission expires: 8-28-2002

DIRECT TESTIMONY OF ROBERT C. SCHOONMAKER

Q. Please state your name and address.

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

Q. By whom are you employed and in what capacity?

A. I am a Vice President of GVNW Consulting, Inc., a consulting firm specializing in working with small telephone companies.

Q. Would you please outline your educational background and business experience?

A. I obtained my Masters of Accountancy degree from Brigham Young University in 1973 and joined GTE Corporation in June of that year. After serving in several positions in the revenue and accounting areas of GTE Service Corporation and General Telephone Company of Illinois, I was appointed Director of Revenue and Earnings of General Telephone Company of Illinois in May, 1977 and continued in that position until March, 1981. In September, 1980, I also assumed the same responsibilities for General Telephone Company of Wisconsin. In March, 1981, I was appointed Director of General Telephone Company of Michigan and in August, 1981 was elected Controller of that company and General Telephone Company of Indiana, Inc. In May, 1982, I was elected Vice President-Revenue Requirements of General Telephone Company of the Midwest. In July, 1984, I assumed the position of Regional Manager of GVNW Inc./Management (the predecessor company to GVNW Consulting, Inc.) and was later promoted to my present position of Vice President. I have served in this position since that time except for the period between December 1988 and November, 1989 when I left GVNW to serve as Vice President-Finance of Fidelity and Bourbeuse Telephone Companies. In summary, I have had over 25 years of experience in the telecommunications industry working with incumbent local exchange carrier companies.

Q. What are your responsibilities in your present position?

A. In my current position, I consult with independent telephone companies and provide financial analysis and management advice in areas of concern to these companies. Specific activities which I perform for client companies include regulatory analysis, consultation on regulatory policy, financial analysis, business planning, rate design and tariff matters, interconnection agreement analysis, and general management consulting.

Q. Have you previously testified in regulatory proceedings?

A. Yes, I have testified on regulatory policy, local competition, rate design, accounting, compensation, tariff, rate of return, interconnection agreements, and separations related issues before the Illinois Commerce Commission, the Public Service Commission of Wisconsin, the Michigan Public Service Commission, the Iowa Utilities Board, the Tennessee Public Service Commission, the New Mexico Public Regulation Commission and the Missouri Public Service Commission. In addition, I have filed written comments on behalf of our firm on a number of issues with the Federal Communications Commission and have testified before the Federal-State Joint Board in CC Docket #96-45 on Universal Service issues.

Q. Who are you representing in this proceeding?

A. I am representing the small Missouri companies included on Schedule RCS-1. These companies are known as the Small Telephone Company Group (STCG).

Q. What is the purpose of your testimony?

A. My testimony will present the position of the STCG regarding the costing procedures that are appropriate for determining the cost of small Missouri companies switched access services. I will provide a summary sheet of the cost studies for each of the small Missouri cost companies and a summary of the revenue requirements supporting the small companies access costs. I will also present a summary of the per unit costs for switched access for all the small Missouri companies. Finally, I will present an analysis of one possible impact if the access rates of these companies were modified to reflect these costs and off-setting rate changes were made to other rates so the company had no overall revenue change.

Q. Can you briefly describe the cost procedures that you are recommending to the Commission for use in determining the switched access costs of the small Missouri telephone companies?

A. Yes. The STCG recommends that an actual cost method be used to determine these switched access costs. The procedures we propose are based (for cost study companies) on the investments made by the companies in providing service, the actual expenditures incurred by the companies in the cost study period, and the cost study procedures adopted by the Federal Communications Commission (FCC) in Part 36 and Part 69 of the FCC rules. The cost study procedures are the same procedures that are used by the companies in setting rates and obtaining revenue recovery in the interstate jurisdiction, with only a few state-specific modifications.

For average schedule companies, which for many years have received interstate settlements under simplified procedures and do not normally perform these cost study procedures, costs have been developed based on the average costs of the small Missouri cost companies.

Q. Could you please specify the companies that you include in the group of the small Missouri cost companies?

A. I include all the incumbent local exchange carriers (ILECs) in Missouri except Southwestern Bell Telephone Co. (SWBT), Verizon, Sprint Missouri, Inc., Spectra, and ALLTEL Missouri, Inc. (ALLTEL). The STCG is making no recommendation at this time as to the procedures that should be used by these companies in determining their access costs.

Q. Why does STCG believe that the actual cost procedures you described are the most appropriate procedures for developing the cost of access of the small telephone companies?

A. First, in general the small telephone companies are subject to rate-of-return regulation. The principles and procedures used in rate-of-return regulation are also based on the company's actual cost of operation at a period of time. The use of similar procedures for determining the cost of access will provide a consistent basis for determining the company's overall cost of operation and the costs associated with the provision of access. Other costing techniques would result in very different costs being considered for access pricing in comparison to the overall cost determination of the company

Second, the use of the actual cost procedures that we are proposing are based on the actual costs that the company is incurring to provide the level and type of service that is being provided. Other costing techniques frequently rely on hypothetical networks and hypothetical costs of providing service. Such techniques require extensive data gathering and often complex models to estimate the costs that the companies might incur. These techniques frequently rest on subjective judgments of the cost of various network components which are the subject of a great deal of controversy and debate. The STCG believes that the use of actual cost data can significantly reduce the controversy related to the cost data used in the studies and provide a "real world" basis for the cost support.

Third, the STCG finds that the models used for estimating forward-looking costs that are currently available for use to determine the cost of small telephone companies have numerous problems associated with them and are not necessarily very effective in estimating small company costs. This is particularly true at the individual small company level.

Q. In your general description of the cost procedures proposed by the STCG you mentioned different procedures being used for "cost companies" and "average schedule companies". Can you briefly describe these two different categories of companies?

A. Yes. These categories are a description of how the companies receive recovery of interstate access costs in the interstate jurisdiction. The "cost companies" receive that recovery based on the completion of individual cost studies using the cost procedures outlined in Parts 36 and 69 of the FCC rules. These studies then provide the basis for recovery of those costs from the National Exchange Carrier Association (NECA) who files tariffs on behalf of hundreds of small telephone companies throughout the country. In a few cases, individual companies use the studies as the basis for filing their own access tariff with the FCC.

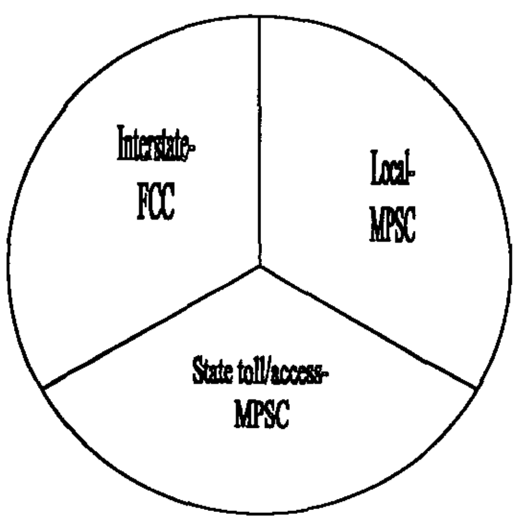
FCC rules and procedures provide that certain small companies may recover their costs on the basis of "average schedule" cost studies rather than specific individual cost studies. Each year NECA analyzes the costs from a sample of cost companies and develops formulas to estimate average costs of providing access services based on specific units of production such as access lines, minutes of use, transport miles, etc. These formulas are submitted to, reviewed by, and approved by the FCC for use by the average schedule companies. The "average schedule" companies then apply these formulas as the basis for estimating and recovering their interstate costs. Generally, the average schedule companies are smaller companies where the cost and administrative effort of producing individual company cost studies would cause an undue burden on the company.

Q. Why have you maintained this distinction in the procedures you propose for the small Missouri companies?

A. The procedures we propose for the cost companies rely on the same cost procedures and techniques that are used in preparing the individual company cost studies at the interstate level, but with those techniques applied to determining costs for state access separate from intrastate local costs. This is a simple extension of the procedures used by cost companies in developing their interstate cost studies. However, the average schedule companies have no individual cost studies performed at the interstate level. Requiring them to perform these studies would impose significant additional cost on these companies, the same burdens which the interstate average schedule formulas are designed to eliminate. We did not think it appropriate to impose these additional burdens on the average schedule companies and thus used an averaging technique that I will describe later in my testimony to develop the costs of the average schedule companies.

Q. Could you please briefly describe the separations process and the different jurisdictions into which costs are "separated"?

A. The separations process, as determined under Part 36 of the FCC rules was implemented to provide a basis for the separate regulation by the FCC and state commissions of interstate and intrastate services under federal and state law. Based on court determinations over an extended period of time, the FCC has responsibility to define how the total costs of a company are divided between the interstate and intrastate jurisdictions. The FCC is responsible for cost recovery of the interstate costs, and the state commissions are responsible for the recovery of intrastate costs. Historically, state commissions have generally recognized a further need to separate or allocate intrastate costs between the cost of local service and the cost of toll service or access to toll services. This separation of costs can be demonstrated visually (though not necessarily proportionally) in the following manner:



Q. Have each of the small Missouri cost companies prepared a cost study for submission to the Commission in this proceeding?

A. They have. These studies were prepared by the cost consultants or personnel that prepare the companies' interstate cost studies and were based on basically the same data used in submitting the interstate studies of the companies for the 2000 calendar year. The full cost studies have been filed with the Commission pursuant to the procedural order in this case and have been made available to all parties that desire them. For each of the small Missouri telephone companies I have attached a summary of the costs from the company's intrastate Part 69 cost study to my testimony in Schedule RCS-8. Page 1 of that Schedule provides an index to the remaining pages in the Schedule.

Q. Why were the studies based on the 2000 calendar year?

A. After the conclusion of the year it takes several months to complete these studies. In the interstate jurisdiction they are to be completed by July 31 of the following year. The 2001 studies were not available for all of the companies for analysis and preparation of this testimony. Consequently, the 2000 cost studies were used.

Q. Can you describe in more detail the cost procedures that were used in developing these cost studies?

A. Yes. As mentioned earlier, the cost procedures used are contained in Part 36 and Part 69 of the FCC's rules. Part 36 contains the Separations procedures and specifically details procedures for "separating" the total company costs into those costs applicable to the interstate and intrastate jurisdictions. The Part 36 rules contain descriptions of specific procedures that are to be used for each type of investment and expense. While the Part 36 rules primarily describe procedures to be used to separate interstate costs from intrastate costs, these same procedures can generally be used to separate intrastate access costs from intrastate local costs. The studies that are being presented to the Commission have separated the intrastate costs into access and local categories.

The Part 69 rules contain the FCC procedures for identifying interstate costs to specific access sub-categories such as Common Line, Local Switching, Local Transport, etc. These costing procedures have also been used to identify intrastate access costs to these general sub-categories. The Part 69 rules also contain specific interstate "rate development" rules. Since they relate specifically to FCC policies and rate development which differ from Missouri access rate structures and procedures, this portion of the Part 69 rules has not been followed at the state level.

Q. Are there places where the studies prepared by the companies differ from the interstate procedures?

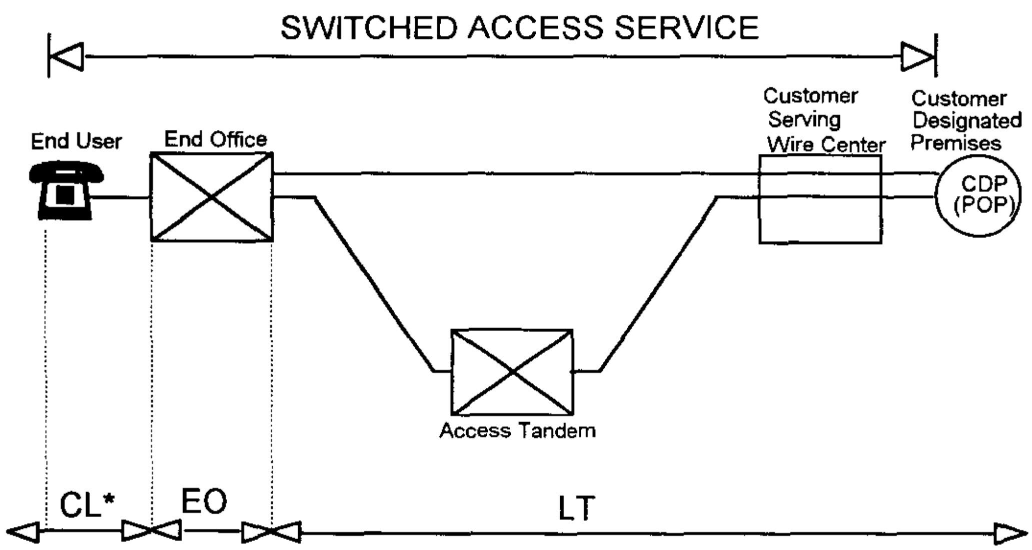
A. I can think of four specific places where the cost studies may differ from the interstate procedures and studies. These are: 1) use of year end investment; 2) allocation of subscriber plant costs; 3) allocation of local switching costs; and 4) in a few instances use of pro forma financial data.

Q. Please describe the differences from federal procedures in the use of year end investment and the reason for this.

A. Cost studies submitted in the interstate jurisdiction are prepared using plant investment based on an average of the beginning and end-of-year investment or the mid-year investment of the company. In Missouri, revenue requirements in a rate case environment have typically been based on end of period investments. To make the studies more consistent with Missouri revenue requirement procedures, the studies of the small companies have been prepared using end-of-year investments rather than the average or mid-year investments.

Q. Could you briefly describe the components of the telephone network that are addressed in the companies' access cost studies?

A. Yes. There are three major network components that are addressed in the companies' cost studies. These are: 1) Common Line – the facilities that run from the end user customer's home or business location to the end office central office switch and connect the switch and the overall network to the end user location. In Missouri, the Carrier Common Line (CCL) rate is charged to interexchange carrier customers to assist in the recovery of the cost of these facilities. 2) Local Switching or End Office – this category represents the cost of the local switching facility which switches calls between the specific end user and the network to other switches in the state or nation. Current Missouri access rates for some companies have two rate elements, end office and line termination, to recover the costs of these functions while others have only a single rate. 3) Local Transport – the facilities that carry the traffic from the end office switch to other switches, to the tandem switches which switch calls between end offices and carriers, and to connections with interexchange carrier network facilities. The diagram below illustrates these major components.



LT-Local Transport
EO-End Office (i.e., Local Switching, Line Termination and Intercept)
CL-Common Line

In addition to these network components, the cost studies develop the cost of the "information element", an allocation of the cost of preparing white page listing information. Since this cost is relatively small, it has been combined with the local switching cost in the rate and summary information that I provide.

Q. Would you describe the interstate procedure for the allocation of subscriber plant costs?

A. Yes. Subscriber plant is that plant used to carry traffic between the end user location and the central office switch. It consists primarily of copper or fiber cable and associated electronic central office equipment used for the transmission of calls between the customer and the central office switch. This plant is frequently referred to as non-traffic sensitive (NTS) plant as the cost of providing this plant is considered to be fixed and not sensitive to the amount of traffic that is transiting the network. Over the past several years there has been considerable discussion on how the cost of this plant should be recovered and how it should be allocated between jurisdictions. The FCC determined a number of years ago that 25% of this plant would be allocated to the interstate and the remaining 75% would be allocated to the intrastate jurisdiction. This determination was based partly on nationwide data that suggested that at that point in time the national average usage of the network was approximately 25% for interstate traffic. No specific determination was made as to how the remaining cost should be allocated between access and local in the intrastate jurisdiction.

Q. Has this Commission determined in the past how this plant should be allocated in the intrastate jurisdiction?

A. Yes, in the 1984 to 1986 time period in cases associated with the AT&T divestiture and the operation of the intraLATA toll pool and interLATA access pool, the Commission did establish specific procedures for allocating subscriber plant costs between local, intraLATA, and interLATA. These procedures were based on the state frozen Subscriber Plant Factor (SPF), a separation factor used in that time period which used a weighting procedure to allocate a greater proportion of these costs to access than to local. These procedures have not been reviewed by the Commission for many years and have not been used, to my knowledge, in the development of access rates since the interLATA and intraLATA pools were eliminated.

Q. Did the small companies analyze the impact of using this subscriber plant allocation procedure in developing access costs?

A. Yes. A "base case" cost analysis was prepared that included this subscriber plant allocation method. It also included an allocation of local switching equipment based on a procedure previously used in separations procedures for subscriber or common line plant. This procedure assigns a minimum of 15% of the total cost of local switching plant to the local jurisdiction. The state toll jurisdiction is allocated the lower of 1) the residual after subtracting the interstate allocation and the 15% minimum local allocation or 2) the actual state toll percentage of usage.

Q. What were the results of this "base case" analysis?

A. Schedule RCS-2 compares the current composite access rates of the small companies with the composite switched access costs developed using the "base case" analysis. For the majority of the companies the access costs developed using this "base case" analysis are higher than the current composite access rates.

Schedule RCS-3 compares the current (2000) switched access revenues of the small companies with the revenues that would have been generated by applying the "base case" access costs to the current billing units. For the majority of the companies the hypothetical revenues based on the "base case" access costs are higher than their current access revenues. In total for the small companies this amounts to costs of $7.9 million above current access revenues.

Q. Why is this "base case" analysis being presented?

A. We wanted to demonstrate that when comparing the small company access rates and revenues under current conditions to the cost of access using the last formally prescribed cost procedures adopted by the Commission, the current small company access rates are not too high as has been alleged in numerous proceedings before this Commission. On an overall basis, the "base case" analysis demonstrates that the current rates are too low.

Q. Are the small telephone companies proposing that this cost method be used to determine access costs of the companies in this proceeding?

A. No, the studies submitted by the small companies use different cost allocation methods than those previously adopted by the Commission, particularly in regard to the allocation of subscriber or common line plant that allocate a smaller amount of this plant to the state toll/access jurisdiction.

Q. What procedure has been used in the cost studies submitted by the small telephone companies in allocating subscriber plant costs between the intrastate access and local jurisdictions?

A. The 75% of subscriber plant costs allocated to the intrastate jurisdiction by the Part 36 rules has generally been allocated between intrastate access and local based on the an allocation of costs to the intrastate access jurisdiction using the subscriber line usage (SLU) or relative usage for that jurisdiction with the remainder of the cost being allocated to the local jurisdiction. However, a minimum 15% allocation to the access jurisdiction has been included in the studies, a limit which impacts the allocation for four companies at the present time.

Q. Why has the 15% limit been applied to the access jurisdiction?

A. The STCG believes that some minimal level of cost recovery should be made from the access jurisdiction in view of the value of having the network available for access for intrastate toll calling.

Q. Why was a procedure different from the interstate procedure used in the allocation of local switching costs?

A. In the interstate jurisdiction, a specific procedure known as the Dial Equipment Minute (DEM) weighting has been developed to allocate a larger portion of local switching costs of companies under 50,000 lines to the interstate jurisdiction to assist in supporting intrastate switching costs. This is done by multiplying the actual usage of the company by a factor of three, two, or 1.5, depending on the number of lines served by the company. The small companies did not believe it would be appropriate to apply this same procedure to the state access jurisdiction.

Q. What procedure was used to allocate local switching costs between the state access and local jurisdictions?

A. The total state allocation of these costs was allocated between the state access and local jurisdictions based on the relative usage (DEM) in these two categories. For example, assume the actual DEM for a company was 20% interstate, 20% intrastate toll, and 40% local and the company has less than 10,000 lines. Under the FCC rules, the interstate allocation of local switching costs would be three times the interstate percent, or a total of 60%, with 40%, the remainder, allocated to the intrastate jurisdiction. This 40% would then be divided between state access and local based on the 20%/40% ratio. The final allocation to state access would be 13.33% (40%*1/3) and the allocation to local would be 26.67% (40% *2/3).

Q. You also mentioned that in a few instances companies had included pro forma adjustments in their cost studies. Could you explain this?

A. Yes. In Missouri rate case proceedings, recognition is frequently given to known and measurable changes that have taken place since the end of the test period that would impact the cost of service on a going forward basis. In the case of these cost studies, nine companies determined that they had significant changes subsequent to 2000 that should be reflected to more appropriately reflect current cost levels. These pro forma adjustments reflected additional investments made after 2000, and in some cases, specific operating expense increases.

Q. Can you describe the process used for determining the cost of the average schedule companies?

A. Yes. The costs for the common line element for all the cost companies were totaled and divided by the cost companies' access lines to arrive at a cost per line for these companies. The average cost per line for the cost companies was then multiplied by each average schedule company's access lines to arrive at the cost for that average schedule company. For the local switching and local transport elements, similar calculations were made for the cost companies, but on a cost per access minute basis rather than access lines. The cost companies' average cost per minute for these elements were then multiplied by the average schedule companies' actual minutes to arrive at the average schedule company cost.

Q. Have you prepared a schedule showing the costs developed for each of the small telephone companies?

A. I have. Schedule RCS-4 is a schedule showing the cost per minute for common line, local switching and information, and local transport for each of the companies. A total cost per access minutes is also shown. The schedule shows that the total cost per minute varies from a low of $0.0447 to a high of $0.1702 per minute.

Q. How do the costs developed compare with the current company access rate levels?

A. Schedule RCS-5 shows such a comparison of the total access rates. The total rates shown are a composite access rate based on current rates (including the discounted CCL rate) and 2000 access minute volumes. It is evident from the Schedule that on an individual company basis the access costs are higher in some cases and lower in other cases than the current company access rates.

Q. Have you prepared a schedule showing the revenue impact that would result if the access rates of the companies were set based on the costs that have been developed?

A. Yes. Schedule RCS-6 contains such an analysis. The revenue impact would vary for individual companies, but in total, access revenues would be reduced by $2.8 million if access rates were set based on the costs that we have developed. I should make it clear that it is our understanding that this case is only focused on developing costs and cost methods and not in changing access rates. This information is only provided to help put the access costs developed into the context of the current rate structure.

Q. If, in a subsequent case, the Commission implemented changes in access rates based on the costs or cost methods developed in this case, would there be a potential significant impact on end user customers?

A. There could be. While the ultimate impact would depend on the context in which rates were changed and what other changes were involved in that case, there could be significant impacts on end users. Again to put the magnitude of changes that might occur under one such scenario, I have prepared Schedule RCS-7. This Schedule is calculated to show end user rate impacts under the assumptions that access rates were changed to cost based levels and the resulting revenue changes were offset by increases or decreases in residence and business rates on an equal per line basis.

Q. What conclusions do you reach in reviewing this schedule?

A. First, it is clear that this is not a process that could or should be followed for each company. In some cases, the access increases are sufficient that offsetting all of that increase would decrease local rates to below zero. That is not a rational approach and result. In other cases, the rates produced are over $20.00 per month. That is also a result that we would not consider appropriate. I believe that one can primarily conclude that any costing method developed in this case could only be considered a guideline and that changing rates of the companies will need to be an individual company effort rather than on a specified procedure.

Q. Does this conclude your testimony?

A. Yes, it does.

Small Telephone Company Group (STCG)

1. BPS Telephone Company
2. Cass County Telephone Company
3. Citizens Telephone Co. of Higginsville, Missouri
4. Craw-Kan Telephone Cooperative, Inc.
5. Ellington Telephone Company
6. Farber Telephone Company
7. Fidelity Telephone Company
8. Goodman Telephone Company, Inc.
9. Granby Telephone Company
10. Grand River Mutual Telephone Corp.
11. Kingdom Telephone Company
12. Lathrop Telephone Company
13. Le-Ru Telephone Company
14. Mark Twain Rural Telephone Company
15. McDonald County Telephone Company
16. Miller Telephone Company
17. New Florence Telephone Company, Inc.
18. New London Telephone Company
19. Orchard Farm Telephone Company
20. Oregon Farmers Mutual Telephone Company
21. Ozark Telephone Company
22. Rock Port Telephone Company
23. Seneca Telephone Company
24. Steelville Telephone Exchange, Inc.
25. Stoutland Telephone Company

Schedules RCS-2 through 8
"PROPRIETARY"