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Issue(s): Transition of COS to Competition

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Case No.: TW-97-333

REBUTTAL TESTIMONY
OF
BARBARA MEISENHEIMER

Submitted on Behalf of
the Office of the Public Counsel

**INVESTIGATION INTO
COMMUNITY OPTIONAL CALLING SERVICE
IN MISSOURI**

Case No. TW-97-333

Exhibit No. 10
Date 6/23/97 Case No. TW-97-333
Reporter Kem

May 23, 1997

NP

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of an Investigation into the)
Provision of Community Optional Calling)
Service in Missouri.)

Case No. TW-97-333

AFFIDAVIT OF BARBARA MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara Meisenheimer. I am a Public Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 15 and Schedule 1.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Barbara Meisenheimer

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

Bobbie J. Richards,
Notary Public, State of Missouri
County of Cole
My Commission Exp. 11/03/2000


Bobbie J. Richards
Notary Public

My Commission expires November 3, 2000.

REBUTTAL TESTIMONY

OF

BARBARA A. MEISENHEIMER

INVESTIGATION INTO THE COMMUNITY OPTIONAL SERVICES

CASE NO. TW-97-333

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. Barbara A. Meisenheimer, Public Utility Economist, Office of the Public Counsel,
3 P. O. Box 7800, Jefferson City, Missouri 65102. I am also employed as an adjunct
4 Economics Instructor for William Woods University.

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

6 A. I hold a Bachelor of Science degree in Mathematics from the University of
7 Missouri-Columbia (UMC) and have completed the comprehensive exams for a
8 Ph.D. in Economics from the same institution. My two fields of study are
9 Quantitative Economics and Industrial Organization. My outside field of study is
10 Statistics. I have taught Economics courses for the following institutions:
11 University of Missouri-Columbia, William Woods University, and Lincoln
12 University. I have taught courses at both the undergraduate and graduate levels.

13 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?**

14 A. Yes.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. I am presenting the position of the Office of the Public Counsel in response to the
3 proposals and comments made by the Missouri Public Service Commission Staff
4 and the telecommunications industry in their direct testimony.

5 Q. COULD YOU GIVE THE KEY ELEMENTS OF PUBLIC COUNSEL'S POSITION?

6 A. Yes. Community Optional Service (COS) is important to Missouri consumers.
7 There is high demand for it as evidenced by the number of petitions to the
8 Commission to qualify for the service and the usage on these COS routes. COS is
9 very popular since it enables rural exchanges to develop a local calling scope for
10 their communities of interest at a reasonable and affordable price. The flat rate,
11 two-way feature provides convenience not only to the customer, but also to those
12 customers who reside in the customer's target exchanges so return calls to the
13 COS subscriber are not subject to toll charges.

14 Public Counsel believes that proposals to drastically reduce COS by making it one-
15 way or significantly increasing the charge ignores the basic consideration of
16 telecommunications competition in that the customer should be better off rather
17 than worse off. The focus of COS service should be the customer and its needs,
18 not the company's needs.

19 Public Counsel believes that it is premature to change COS when competition has
20 not yet developed to provide any service which is comparable in price and scope.
21 In absence of a suitable substitute, consumers should not be deprived of a valued
22 and highly desirable service. In addition, COS provides a measure to "equalize"
23 rural and urban communities in the value of service of both areas have convenient
24 and affordable access to their community of interest.

1 Public Counsel sees competitive markets which provide suitable substitute service
2 as reasonable and affordable prices as the ultimate solution to COS concerns.
3 However, until that level of competition is reached, Public Counsel offers a
4 suggested plan to revise COS. Although additional details must be worked
5 through, Public Counsel offers its proposals as a reasonable alternative to gutting
6 the current COS plan and devaluing the service for consumers.

7 **Q. DO EXISTING LOCAL EXCHANGE BOUNDARIES FACILITATE AFFORDABLE**
8 **TELECOMMUNICATION SERVICES FOR ALL MISSOURIANS?**

9 A. No. Although the original delineation of Missouri exchange boundaries may have
10 once facilitated affordable telecommunication services given the technical
11 configuration of the network, the geographic features of the state, and past calling
12 patterns, those boundaries are now outmoded due to technological advances and
13 changing patterns of consumer demand. Traditional calling scopes are eroding
14 because consumers are making greater use of the system and are calling people at
15 distant locations on a more regular basis. This may be as result of the migration to
16 far suburbs and to maintain a rural or rural fringe lifestyle and yet still be in contact
17 with the urban areas. Customers are depending on a wide spread and modern
18 telecommunications network as their daily link to friends, business customers and
19 services.

20 **Q. HAS THE COMMISSION RECOGNIZED THAT FROM A CONSUMER'S PROSPECTIVE**
21 **EXCHANGE BOUNDARIES ARE ARBITRARY AND RESPONDED TO CHANGING**
22 **PATTERNS OF CONSUMER DEMAND?**

23 A. Yes. In recognition that competition, through costs and demand considerations,
24 would likely not produce the same local calling scopes as exist today, the

1 Commission has made an ongoing effort to institute rules and definitions that
2 effectively simulate the outcomes of competitive markets.

3 **Q. WAS COS ESTABLISHED AS A RESULT OF THE COMMISSION'S ONGOING**
4 **EFFORT TO EFFECTIVELY SIMULATE THE OUTCOMES OF COMPETITIVE**
5 **MARKETS?**

6 A. Yes. In Dockets TO-87-131 and TO-92-306, COS was initially established and
7 later modified to respond to consumer demands which were not being adequately
8 addressed by competition in the toll market nor by local exchange providers.

9 **Q. DO COMPETITIVE OFFERINGS IN THE TOLL MARKET PROVIDE CONSUMERS**
10 **WITH AN ADEQUATE SUBSTITUTE FOR COS?**

11 A. Definitely not. For many areas of the state, existing toll offerings are not viewed
12 by consumers as an adequate substitute for COS. This is evidenced by the
13 continuing flow of COS applications and by the heavy utilization of existing COS
14 routes.

15 **Q. WOULD THE PUBLIC INTEREST BE SERVED BY THE COMMISSION ADOPTING**
16 **STAFF'S PROPOSAL TO DISMISS ALL PENDING COS PETITIONS, TO CONVERT**
17 **EXISTING TWO-WAY OFFERINGS TO ONE-WAY AND TO EVENTUALLY PHASE OUT**
18 **COS ALL TOGETHER.**

19 A. No. I agree with Ms. Smith conclusion that "such a decision would create a
20 dramatic change that would be extremely unpopular and painful to the COS
21 customer." Existing toll offerings are not viewed by consumers as an adequate
22 substitute for COS. It is imperative that the Commission adopt a solution that

1 allows for a continuation of the two-way service not only on existing routes, but
2 also on perspective routes to ensure that the important benefits provided to
3 consumers by COS and, in particular, the benefits of the two-way service, will not
4 be lost.

5 **Q. ARE EXISTING LOCAL SERVICES DISTINGUISHED FROM COS BASED ON**
6 **DISTANCE A CALL MUST TRAVEL?**

7 A. No. Southwestern Bell Telephone Company ("SWBT") has exchanges that range
8 in area from 4.1 square miles to over 400 square miles. This indicates that COS
9 subscribers do not necessarily have access to a larger calling area than do local
10 subscribers.

11 **Q. ARE EXISTING LOCAL SERVICES DISTINGUISHED FROM COS BASED ON THE**
12 **VALUE RECEIVED IN TERMS OF THE NUMBER OF RESIDENCES AND BUSINESSES**
13 **THAT A SUBSCRIBER CAN REACH?**

14 A. No. Many cases exists where COS subscription provides connection with less
15 total access lines than existing local service. For example, SWBT's COS route
16 from the petitioning exchange of Frankford to the target exchange of Bowling
17 Green provides a subscriber in the petitioning exchange contact with
18 approximately 3,500 access lines combined. This number of lines is significantly
19 less than in many local exchanges. Therefore, there is little justification to base the
20 designation as a toll service based on area reached or value in the number of
21 customers that a caller can reach.

1 **Q. WHAT IS THE SIGNIFICANCE OF THE TWO-WAY OPTION AS PART OF COS?**

2 A. In its December 29, 1989 Report and Order in Case No. TO-87-131, the
3 Commission recognized that it is important to provide the two-way flat rate option
4 and that the two-way option should be a part of the extra-exchange calling
5 program. The record in that case supported the conclusion that heavy toll users
6 within a community of interest needing to call doctors, hospitals, churches,
7 governmental offices and other services in the requested exchange, also need to be
8 called by the individuals rendering these services.

9 **Q. BASED UPON THESE CONSIDERATIONS, SHOULD COS BE DESIGNATED AS A**
10 **LOCAL SERVICE?**

11 A. Yes.

12 **Q. WHAT DO YOU SEE AS THE FUTURE OF COS WHEN COMPETITION DEVELOPS?**

13 A. When effective competition for local service exists it is likely that customers will
14 be able to choose among a variety of customized calling plans that are good
15 substitutes for COS.

16 Public Counsel believes that when effective competition develops there will be a
17 reduced need for continuation of COS. Until such time as a two-way COS is no
18 longer needed, it must be maintained to ensure that all customers are not worse off
19 by competition.

1 Q. HOW DOES PUBLIC COUNSEL PROPOSE TO MAKE THE TRANSITION FROM COS AS
2 IT EXISTS TODAY TO AN EFFECTIVELY COMPETITIVE MARKET?

3 A. The transition to competition must maintain at a minimum the current levels of
4 quality service and convenience for all customers. Two-way COS must be
5 maintained during transition. As discussed previously, COS has many attributes of
6 local service. The first step in this transition phase is to designate COS as local
7 service rather than toll.

8 Q. TO WHAT EXTENT, AND IN WHICH AREAS OF THE STATE, DOES TWO-WAY COS
9 NEED TO BE MAINTAINED?

10 A. Public Counsel is particularly concerned that rural consumers could lose the
11 benefits of COS. COS routes in urban areas served by large incumbents will likely
12 experience the benefits of competition much sooner than will consumers in rural
13 areas. This stems in part from a CLEC's ability to designate its local serving area
14 as being larger than the existing exchange boundaries of the ILEC. It is reasonable
15 to assume that flat-rate calling to an area larger than an existing exchange will be a
16 viable service offering for new local service providers. Additionally, I anticipate
17 carriers will offer some bundled services on a flat-rate basis which may include
18 expanded calling service.

19 Unless the access rates of rural carriers decline substantially, I do not foresee the
20 development of toll plans that yield an equivalent value at an equivalent price to
21 COS nor bundled services which are price comparable to services that will be
22 enjoyed by urban consumers. For these reasons, two-way COS should be
23 maintained for different periods of time in different areas of the state. To adopt a
24 policy of blanket discontinuation or elimination of COS because of administrative

1 ease would create an unjust and unreasonable reduction in the value of services
2 received by rural telecommunications consumers.

3 **Q. WHAT ARE THE BARRIERS TO A CONTINUATION OF A TWO-WAY COS?**

4 A. There are three barriers to the continuation of two-way COS. The first barrier is
5 the procedure for identifying what traffic is not subject to traditional toll, but is
6 instead provided under the flat-rate COS offering. It is my understanding that
7 currently the PTCs identify and eliminate toll charges within their billing system.
8 Upon implementation of intraLATA presubscription, COS traffic will not
9 necessarily be routed through a PTC. This would require competitive IXCs to
10 develop a similar data base and data base functionality. This is impractical, if not
11 impossible, given the large number of toll competitors.

12 The second barrier to the continuation of two-way COS involves the existing inter-
13 company compensation method utilized in the provision of two-way COS. The
14 current method requires LECs to bill end-users for COS service and to forward
15 payment to the PTC that carries the intraLATA toll for the petitioning exchange.
16 The PTC is required to compensate both the petitioning exchange LEC and the
17 target exchange LEC for the use of LEC facilities. This compensation is in the
18 form of Carrier Common Line (CCL) charge, a local switching charge (LS2), a
19 line termination charge (LT), and a local transport charge. The terminating
20 exchanges' PTC may receive no compensation under the existing plan. This
21 compensation method is fundamentally inconsistent with competitive neutrality.

22 The third barrier to the two-way COS is that upon competitive entry by new local
23 service providers, which provide service through means other than resale, there
24 will be an increased likelihood of traffic routing problems similar to problems

1 associated with intraLATA presubscription. The more new local service
2 providers, the greater will be the confusion.

3 **Q. WHAT REGULATORY CHANGES SHOULD BE IMPLEMENTED TO ENSURE**
4 **CONTINUATION OF TWO-WAY COS?**

5 A. The regulatory changes required to ensure continuation of two-way COS relate to
6 developing an appropriate competitive neutral compensation mechanism and to
7 establishing methods by which two-way COS can be phased out in exchanges
8 where competition has produced service comparable to COS at comparable prices.
9 The Commission should designate COS as a local service and require ILECs to
10 continue to offer two-way COS until at least one of the COS route exchanges is
11 subject to facilities-based competition and at least one of the local providers
12 requests the elimination of the two-way COS route. Upon review of the extent of
13 competitive entry, the Commission can determine whether a one-way COS is
14 required to meet customers' needs or whether the local and toll competition
15 produced service offerings of comparable value and price to COS. The
16 Commission should adopt the existing prices of COS for residential and business
17 subscribers, but establish an access provider rate reflective of the unusually high
18 utilization by these subscribers. This "access provider rate" would apply to such
19 customers as internet access or other customers who aggregate calls to a few
20 numbers. Finally, the Commission should identify COS as being an "essential local
21 telecommunications service" in the absence of "effective competition." This
22 designation would ensure that high cost consideration for Missouri USF funding
23 incorporates COS offerings for all LECs serving exchanges for which COS costs
24 exceed COS revenues and that LECs in high cost areas would be able to recover
25 the costs of providing COS.

1 To identify two-way COS as a distinct "essential telecommunication service"
2 allows for cost recover without violating the statutory definition of basic local
3 telecommunications service. That definition does not include optional toll free
4 calling outside a local calling scope, but within a community of interest available
5 for an additional monthly fee.

6 **Q. DO YOU AGREE WITH GTE WITNESS MARY KAHNERT THAT REGARDLESS OF**
7 **THE DESIGNATION OF LOCAL OR TOLL, SWITCHED ACCESS IS THE**
8 **APPROPRIATE COMPENSATION MECHANISM ON OPTIONAL INTEREXCHANGE**
9 **CALLING?**

10 **A.** No. I agree with SWBT witness Richard Taylor that if COS is designated as a
11 local service and is provided by the LECs, then the appropriate portion of current
12 access compensation should exclude the CCL rate component that reflects a toll
13 provider's contribution toward support of joint and common facilities. Since I
14 have proposed that upon designation of COS as a local service the CCL rate
15 component is no longer applicable, some adjustment to provide a contribution to
16 the target LEC's joint and common costs would be appropriate. Total inter-
17 company compensation for two-way COS could be calculated on an exchange
18 basis by multiplying the per-minute rate by the sum of petitioning minutes to the
19 target exchange and the target exchange minutes to the petitioning exchange.

20 **Q. HAVE YOU ANALYZED OR ESTIMATED THE COSTS OF PROVIDING TWO-WAY**
21 **COS ACCORDING TO YOUR PROPOSAL?**

22 **A.** Yes. The method I have used to identify per-minute costs utilizes the following
23 formula which reflects the proposed inter-company compensation rate:

1 Target LS2 + Target Line Termination + Target Local Transport

2 The sum of these components for the petitioning exchange yields the costs that a
3 petitioning exchange LEC should impute to reflect the use of their own facilities.

4 Schedule 1, which is attached as an Exhibit to my rebuttal testimony, illustrates the
5 per exchange cost per subscriber. The costs per subscriber presented in the
6 Schedule were developed utilizing the LS2, Line Termination and Local Transport
7 component per company per-minute of use.

8 **Q. ARE THERE ANY ADDITIONAL COSTS INCURRED IN THE PROVISION OF TWO-**
9 **WAY COS UNDER YOUR PROPOSAL?**

10 A. I have previously suggested that a joint and common costs rate component be
11 included in the inter-company compensation mechanism in addition to the costs of
12 local switching, line termination and local transport. There may be additional costs
13 associated with directory listings in target exchanges, the implementation of
14 remote call forwarding and the transition from a PTC provided service to a LEC
15 provided service. These costs have not been included in the analysis presented in
16 Schedule 1.

17 **Q. WHAT OBSERVATIONS CAN BE MADE REGARDING THE COSTS OF COS VERSUS**
18 **REVENUE GENERATED UNDER YOUR PROPOSAL?**

19 A. The average costs per subscriber exceeds the residential COS rate for every
20 company except SWBT.

1 Q. CAN YOU IDENTIFY PARTICULAR CUSTOMER GROUPS WHOSE USAGE
2 GENERATES DISPORTIONATE COSTS RELATIVE THE AVERAGE SUBSCRIBER?

3 A. Internet usage may contribute to higher minutes of use from the target exchange to
4 the petitioning exchange. This usage causes the average costs per subscriber to be
5 higher than one might otherwise expect.

6 Q. WOULD IT BE APPROPRIATE FOR THE COMMISSION TO ESTABLISH A RATE FOR
7 SERVICE ACCESS PROVIDERS, SUCH AS INTERNET PROVIDERS, THAT IS HIGHER
8 THAN THE EXISTING RESIDENTIAL AND BUSINESS COS RATES?

9 A. Yes. Public Counsel suggests that to ensure that service access providers shoulder
10 an appropriate share of costs the Commission develop a new COS rate component
11 appropriate for such providers.

12 Q. CAN YOU SUGGEST AN APPROPRIATE RATE FOR SERVICE ACCESS PROVIDERS AT
13 THIS TIME?

14 A. No. I would not feel comfortable estimating an appropriate rate for aggregators
15 from a single month's data, but based on the limited data I have reviewed, I believe
16 a service access provider rate may exceed \$100 per line.

17 Q. ARE YOU CONCERNED ABOUT THE VIABILITY OF UTILIZING A 800/888 NUMBER
18 TO PRESERVE THE TWO-WAY FEATURE OF COS?

19 A. Yes. In addition to the drawbacks identified in other filed testimony, discussions
20 with Staff have raised a concern about the ease with which 800 and 888 numbers
21 could be obtained and utilized for provisioning COS.

1 **Q. WHAT TECHNICAL CHANGES MUST BE IMPLEMENTED TO ENSURE**
2 **CONTINUATION OF TWO-WAY COS?**

3 A. Public Counsel suggests that utilizing remote call forwarding (RCF) is less
4 troublesome than the proposed 800 solution because the PSC will be able to
5 contain the use of additional numbers to numbers already assigned to Missouri
6 telephone companies. While past experience indicates that remote call forwarding
7 may cause customer confusion, I believe that some confusion is preferable to
8 eliminating the two-way benefit of existing COS service.

9 **Q. HOW SHOULD TWO-WAY COS BE MODIFIED AND EVENTUALLY PHASED OUT AS**
10 **COMPETITION DEVELOPS IN AN EXCHANGE?**

11 A. Prior to implementation of intraLATA presubscription for any exchanges included
12 on a particular COS route, RCF provisioning of COS should be implemented and
13 the inter-company compensation methods should be instituted. Upon entry of a
14 facilities-based competitor in at least one of the COS route exchanges and
15 following a local provider's requests to eliminate the two-way COS route, the
16 Commission should evaluate the extent of effective competition. The Commission
17 should determine for each exchange whether a one-way COS, a one-way
18 reciprocal COS is required to meet customer's needs or whether local and toll
19 competition have produced service offerings of comparable value and price to
20 COS.

1 **Q. DOES THE PROPOSAL THAT YOU HAVE PRESENTED ELIMINATE THE "LOOKING**
2 **OVER THE FENCE" PROBLEM DESCRIBED BY STAFF WITNESS GAY SMITH?**

3 A. No. While this method of phasing out obsolete two-way COS routes does not
4 eliminate the possibility of customers "looking over the fence," the only customers
5 that will be looking are those that have alternatives. For those customers not
6 receiving the benefits of competition, this method ensures that they are no worse
7 off.

8 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

9 A. The Commission should:

- 10 • Designate COS as a local service to be provided by ILECs.
- 11 • Develop an appropriate inter-company compensation rate.
- 12 • Develop a service access provider rate.
- 13 • Identify COS as an "essential telecommunications service" in areas not subject to
14 "effective competition."
- 15 • Require that two-way COS be provided through remote call forwarding
16 concurrent with implementation of intraLATA presubscription.
- 17 • Evaluate requests for the elimination of two-way COS on a case-by-case basis.

18 Public Counsel strongly urges the Commission to maintain COS without a
19 significant reduction in scope or increase in price. Competition should bring
20 lower prices, more options and better service to consumers. The proposals made
21 to eliminate two-way COS do not advance any of consumer interests or goals

1 consistent with the Telecommunications Act of 1996 or Senate Bill 507. Until
2 effective competition develops to provide a suitable substitute for COS service at a
3 reasonable and affordable price, COS must be maintained at consistent levels of
4 quality, service and price. Public Counsel, in recognition that change must occur
5 in transitional steps, offers a proposal which can preserve the features that
6 consumers demand from COS and address the industry's needs.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A. Yes.**

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