

Exhibit :
Issue : Intercompany Compensation
Witness : Taylor
Type of Exhibit : Surrebuttal Testimony
Sponsoring Party : Southwestern Bell Telephone Co.
Company : Southwestern Bell Telephone Co.
Case No. : TW-97-333

SOUTHWESTERN BELL TELEPHONE COMPANY

CASE NO. TW-97-333

SURREBUTTAL TESTIMONY

OF

RICHARD L. TAYLOR

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Date 6/23/97 Case No. TW-97-333
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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 RICHARD L. TAYLOR

STATE OF MISSOURI)
) SS
CITY OF ST. LOUIS)

I, Richard L. Taylor, of lawful age, being duly sworn, depose and state:

1. My name is Richard L. Taylor. I am presently Director-Regulatory and Industry Relations for Southwestern Bell Telephone Company.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 12 and schedule 1.

3. I hereby swear and 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.

Richard L. Taylor

Richard L. Taylor

Subscribed and sworn to before me this 6th day of June 1997.

Maryann Purcell
Notary Public

My Commission Expires: Jan 5, 2000

MARYANN PURCELL
Notary Public - Notary Seal
STATE OF MISSOURI
ST. LOUIS COUNTY
MY COMMISSION EXP JAN. 5, 2000

1

2

SURREBUTTAL TESTIMONY OF RICHARD L. TAYLOR

3

4 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

5 **A.** My name is Richard L. Taylor and my business address is 100 North Tucker Blvd.,
6 St. Louis, Missouri 63101.

7

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 **A.** I am employed by Southwestern Bell Telephone Company (SWBT) as Director-
10 Regulatory and Industry Relations.

11

12 **Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY IN THIS CASE?**

13 **A.** Yes. I have filed both Direct Testimony and Rebuttal Testimony.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

16 **A.** The purpose of my testimony is to provide SWBT's position in response to Rebuttal
17 Testimony filed by other parties in this docket related to the following issues:

- 18 1. Intercompany compensation for Community Optional Service (COS).
19 2. The business relationship between SWBT and other Local Exchange Carriers
20 (LECs) in the provision of COS, in particular as affected by two-way COS.

1

2 **Q. BEGINNING AT PAGE 6 OF MR. SCHOONMAKER'S REBUTTAL**
3 **TESTIMONY, HE PURPORTS TO PRESENT AN ANALYSIS OF THE**
4 **IMPACTS ON ALL STCG AND MID-MISSOURI COMPANIES OF THE ONE-**
5 **WAY RECIPROCAL COS PLAN PROPOSED IN YOUR DIRECT TESTIMONY.**
6 **DO YOU AGREE THAT HIS ANALYSIS APPROXIMATES THE IMPACT OF**
7 **YOUR PROPOSAL?**

8 **A.** No. While Mr. Schoonmaker's Schedule RCS-3 was filed as highly confidential and,
9 therefore, not available to me for a complete review, his assumption on page 7 that the
10 traffic would be treated as toll and subject to all access rate elements makes his analysis
11 inconsistent with my proposal.

12

13 **Q. HOW IS THAT ASSUMPTION INCONSISTENT WITH YOUR PROPOSAL?**

14 **A.** I proposed that COS should be local, not toll, and that intercompany compensation
15 should not include all access rate elements, but specifically should exclude the Carrier
16 Common Line (CCL) element.

17

18 **Q. WOULD EXCLUSION OF THE CCL ELEMENT MAKE A SIGNIFICANT**
19 **DIFFERENCE IN THE ASSESSMENT OF THE IMPACT OF ANY PROPOSAL?**

1 A. Yes, it would make a significant difference, given that, as can be deduced from my Direct
2 Testimony, the CCL element represents over 50 percent of the total minute of use access
3 charge both for SWBT and the SCs.

4

5 **Q. MR. SCHOONMAKER ESTIMATED THAT THE STCG AND MID-MISSOURI**
6 **GROUP COMPANIES WOULD NEED APPROXIMATELY \$2.7 MILLION**
7 **ADDITIONAL REVENUE TO BE REVENUE NEUTRAL UNDER THIS**
8 **PROPOSAL. ASSUMING THAT MR. SCHOONMAKER'S ESTIMATE IS**
9 **REASONABLE, DO YOU FIND THAT TO BE A MAJOR PROBLEM?**

10 A. No. The 18 SCs which have exchanges with COS serve approximately 116,000 total
11 customer access lines. The impact of \$2.7 million would equal \$1.94 per access line per
12 month if the SCs and the Commission agreed to that method of revenue neutrality.
13 However, I'm confident a number of other rate design proposals would be discussed prior
14 to such a determination on a company specific basis. For instance, prices for COS,
15 vertical services and basic local service may be adjusted in different combinations for
16 different company circumstances.

17

18 **Q. IS AN ALL CURRENT FACTORS REVENUE NEUTRALITY**
19 **DETERMINATION APPROPRIATE IN THIS CASE?**

1 **A.** No. As discussed more fully in SWBT witness Debbie Bourneuf's Direct Testimony at
2 pages 21-23, the revenue neutrality calculation should be made from the time that SCs
3 *implemented their COS-related access charge reduction or determined a reduction was*
4 not required. Because COS routes have been added and usage stimulated since those
5 access rate adjustments, SC revenues have increased above revenue neutrality and PTC
6 access expense increases have produced less than revenue neutral results for PTCs.

7
8 **Q. CONTINUING TO ASSUME THE \$2.7 MILLION FIGURE IS A REASONABLE**
9 **ESTIMATE, MR. SCHOONMAKER TESTIFIED THAT HIS ANALYSIS**
10 **SHOWED THE PTCs (PRIMARILY SWBT) WOULD RECEIVE A \$2.7**
11 **MILLION COMBINED REVENUE INCREASE AND EXPENSE DECREASE.**
12 **WHAT IS SWBT'S POSITION REGARDING ANY SUCH BENEFIT?**

13 **A.** SWBT would not anticipate retaining whatever net benefit, if any, accrued from
14 modification of COS. A revenue neutral determination should be made for SWBT
15 consistent with those we have recommended for SCs.

16
17 **Q. HOW WOULD SWBT ELIMINATE ANY NET BENEFIT FROM**
18 **MODIFICATION OF COS AS YOU HAVE PROPOSED?**

19 **A.** SWBT will flow through such a net benefit, if any, in the form of rate reductions to
20 customers for other toll services.

1

2 **Q. BEGINNING AT PAGE 8 AND CONTINUING THROUGH PAGE 10 OF HIS**
3 **REBUTTAL TESTIMONY, MR. JONES CRITICIZES YOUR DIRECT**
4 **TESTIMONY AS BEING INCOMPLETE AND GIVING HIS OPINION THAT**
5 **"ROUTE SPECIFIC ANALYSIS IS MEANINGLESS". WHAT IS YOUR**
6 **RESPONSE?**

7 **A.** The data presented in my Direct Testimony is actual, accurate, representative, and goes to
8 the heart of one of the biggest problems associated with COS, the intercompany
9 compensation issue. The data represents 27 percent of the 67 COS routes where SWBT
10 is the PTC and one of its SCs serves the petitioning exchange.

11

12 **Q. WHY DID YOUR ANALYSIS NOT INCLUDE DATA FOR ALL COS ROUTES?**

13 **A.** As stated in my earlier testimony, the information requested in discovery was not
14 provided, notably by Mr. Jones' group, in a fashion or time frame to allow inclusion.

15

16 **Q. WHAT ADDITIONAL INFORMATION CAN YOU NOW PROVIDE IN**
17 **RESPONSE TO MR. JONES' REQUEST FOR A MORE COMPLETE**
18 **ANALYSIS?**

19 **A.** I have determined from STCG witness Schoonmaker's Rebuttal Testimony Schedule
20 RCS-3 that the total PTC Payout Ratio (Access : Revenue) for all COS routes involving

1 SCs is 3.31 : 1. That means PTCs pay out \$3.31 in access charges for each \$1.00 in COS
2 revenue. Looking at all of the COS routes, PTCs receive \$1,255,174 in COS revenue and
3 pay out \$4,149,853 in access payments to SCs. Given that SWBT is impacted
4 substantially more by SCs than are other PTCs, I find Mr. Schoonmaker's numbers
5 reasonably consistent with my analysis which showed a payout ratio of 4.05 : 1.
6

7 **Q. CAN YOU PROVIDE ANY DETAILED BREAKDOWN BELOW THE**
8 **AGGREGATE PTC LEVEL OF THIS ANALYSIS?**

9 **A.** Unfortunately, I cannot. Mr. Schoonmaker's schedule was filed as highly confidential,
10 route specific COS data. Therefore, I have only been allowed to see certain aggregate
11 totals from which it would be impossible for me to discover the route specific, highly
12 confidential data of other PTCs or SCs.
13

14 **Q. MR. JONES TESTIFIED THAT "IN ORDER TO MAKE A PROPER**
15 **COMPARISON OF TOLL REVENUES AND EXPENSES, ALL TOLL**
16 **REVENUES AND EXPENSES OF THE PROVIDER SHOULD BE**
17 **CONSIDERED. ROUTE SPECIFIC ANALYSIS IS MEANINGLESS." WHAT IS**
18 **YOUR RESPONSE?**

19 **A.** I do not agree. In examining the fairness of COS compensation, a part of the PTC Plan,
20 the fact that SWBT pays out more in access charges than it receives in revenue is

1 relevant. But even if all toll revenue and related access charges are considered, the
2 pattern is repeated.

3 1. On an aggregate basis, when looking at all Mid-Missouri Telephone Company
4 toll services for which SWBT serves as PTC, SWBT pays Mid-Missouri more in
5 access than SWBT receives in toll revenues.

6 2. On an aggregate basis, when looking at all Mid-Missouri Group Companies' toll
7 services for which SWBT serves as PTC, SWBT pays the Mid-Missouri Group
8 Companies more in access than SWBT receives in toll revenues.

9 3. On an aggregate basis, when looking at all Secondary Carriers' toll services for
10 which SWBT serves as PTC, SWBT pays the SCs more in access than SWBT
11 receives in toll revenues.

12 4. SWBT's objection to the current compensation arrangement is not route specific.
13

14 **Q. MR. JONES' REBUTTAL TESTIMONY ALSO CONTENDED YOUR ANALYSIS**
15 **FAILED TO RECOGNIZE ACCESS SAVINGS RELATED TO SC ACCESS**
16 **RATE REDUCTIONS TAKEN TO REFLECT COS STIMULATION. WHAT IS**
17 **YOUR RESPONSE?**

18 **A.** As pointed out at pages 12-13 of my Rebuttal Testimony, Mr. Jones argument is not
19 valid. The SC access reductions did little to correct the imbalance of payments under the
20 present compensation arrangement. The following actual example demonstrates my

1 point:

- 2 1. In April 1995 SWBT collected \$40,734 total PTC revenue from all toll services,
3 including COS, provided in Mark Twain Rural Telephone Company exchanges.
4 That month SWBT paid Mark Twain \$62,382 in switched access charges.
- 5 2. In July 1995 Mark Twain made its one-time access rate reduction, the type
6 referred to by Mr. Jones, based on one COS route.
- 7 3. In September 1995 Mark Twain implemented seven additional COS routes.
- 8 4. In April 1997 SWBT collected \$43,780 total PTC revenue from all toll services,
9 including COS, provided in Mark Twain exchanges. That month SWBT paid
10 Mark Twain \$134,465 in switched access charges.
- 11 5. From April 1995 to April 1997 SWBT's revenue increased 7.5 percent and our
12 expense (Mark Twain's revenue) increased 115 percent. For every dollar of
13 additional revenue SWBT received we paid Mark Twain \$23.66. SWBT's
14 payout ratio (Access : Revenue) increased from 1.53 : 1 to 3.07 : 1.
- 15 6. Now that I have recognized the access rate reductions referred to by Mr. Jones, I
16 believe SWBT's position is even more compelling.

17

18 **Q. WHAT COMMENTS DO YOU HAVE CONCERNING THE POTENTIAL**
19 **MISUSE OF COS DISCUSSED BY MISSOURI PSC STAFF WITNESS GAY**
20 **SMITH?**

1 A. As discussed in my Rebuttal Testimony and that of SWBT witness Debbie Bourneuf,
2 SWBT has been exploring the same issues Ms. Smith expressed concern over at pages 6
3 through 9 of her Rebuttal Testimony. Our investigation and responses to data requests
4 have identified the same two major problems that Ms. Smith identified.

5
6 **Q. WHAT ARE THOSE PROBLEMS?**

7 A. The first is that COS is being inappropriately shared and resold in the provision of
8 Internet access service by some Secondary Carriers, in contravention to our COS tariff.
9 The second is that some SCs are utilizing COS for which they are not paying.

10
11 **Q. WHAT ADDITIONAL QUANTIFICATION CAN YOU PROVIDE ON THESE**
12 **ISSUES?**

13 A. We have determined the following:

- 14 1. At least eight SCs or their affiliates are currently participating or during the past
15 18 months have participated in the use of COS as a one-way incoming service in
16 the provision of Internet access service.
- 17 2. Those eight companies have equipped at least 204 lines to receive the incoming
18 calls and have, at least for some period of time, not paid the monthly COS rate
19 on at least 136 of those lines.
- 20 3. During March 1997, the target exchange to petitioning exchange traffic on 18

1 COS routes where COS was being used to facilitate this Internet access service
2 amounted to 2,274,992 minutes of use, which was approximately 90 percent of
3 all the target to petitioning exchange traffic on the 18 COS routes. The 18 routes
4 are listed on Schedule 1-1.

5
6 **Q. DO YOU AGREE WITH MS. SMITH'S RECOMMENDATION THAT THE LECs**
7 **CEASE USING COS FOR INTERNET ACCESS?**

8 **A.** Absolutely. They should immediately cease such usage and should compensate SWBT,
9 and any other PTC that may have been affected, for the service they have used and for
10 which we have not been appropriately compensated.

11
12 **Q. WHAT OTHER ISSUES SHOULD BE ADDRESSED IN VIEW OF THIS MISUSE**
13 **OF COS?**

14 **A.** As stated in my Rebuttal Testimony, this scenario is indicative of the need to modify
15 COS to be a local service with the originating LEC having the responsibility of being the
16 service provider. The current arrangement is not working properly and is not sustainable.

17
18 **Q. WHAT OTHER ISSUE IS IMPACTED BY THIS MISUSE OF COS?**

19 **A.** I believe it has significant relevance to the debate between one-way versus two-way COS.

1

2 **Q. PLEASE EXPLAIN.**

3 **A.** The Secondary Carriers are among the most vocal proponents of retaining COS as a two-
4 way service. STCG witness Schoonmaker reported in his Direct Testimony that average
5 usage for target to petitioning exchange calling was 5.75 hours per month. If you subtract
6 the inappropriate Internet usage, the remainder is only 3.55 hours of usage per month.
7 Coupled with Mr. Schoonmaker's estimate of 7.75 hours of outgoing calling, that would
8 make the average customer's combined outgoing and incoming COS usage equal 11.3
9 hours, 69 percent outgoing and 31 percent incoming. Since the current COS service
10 allows unlimited two-way calling, but the return calling on average is only seven minutes
11 per day, a shift in the service to one way would not be unreasonable.

12

13 **Q. WHAT IS YOUR ASSESSMENT OF THE IMPACTS OF SUCH USAGE?**

14 **A.** What is clear is that the legitimate target to petitioning exchange COS usage is at least 40
15 percent less than represented in Mr. Schoonmaker's Direct Testimony.

16

17 **Q. WHAT IS YOUR RECOMMENDATION?**

18 **A.** It is obvious that one-way COS would accommodate at least 70 percent of the community
19 of interest type calling, and probably more. One-way local COS provided by the
20 petitioning LEC with intercompany compensation at access rates less CCL, as proposed

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1 in my earlier testimony and as supported by the Office of the Public Counsel witness
2 Barbara Meisenheimer, would simplify the administration of COS and significantly
3 reduce the compensation burden which currently makes the service difficult to price.

4

5 **Q. DOES THAT COMPLETE YOUR TESTIMONY?**

6 **A. Yes.**

COS ROUTES STUDIED MARCH 1997

The following 18 COS routes combined had 2,542,605 minutes of use from the respective target exchanges to the respective petitioning exchanges in March 1997. Of those minutes of use 2,274,992 were to telephone numbers associated with RAIN's Internet access service:

1. Gilliam to Slater
2. Marshall Junction to Marshall
3. Marshall Junction to Sedalia
4. Pilot Grove to Boonville
5. Green City to Kirksville
6. Novinger to Kirksville
7. Auxvasse to Fulton
8. Auxvasse to Mexico
9. Brashear to Kirksville
10. Greentop to Kirksville
11. Hurdland to Edina
12. Hurdland to Kirksville
13. Knox City to Edina
14. Novelty to Edina
15. New Florence to Montgomery City
16. Bogard to Carrollton
17. Ludlow to Chillicothe
18. Wheeling to Chillicothe