

Exhibit No. _____
Issue: Cost and Rate Analysis
Witness: David W. Evans
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: GTE Midwest Incorporated
Case No.: TW-97-333

Exhibit No. 21
Date 6/23/97 Case No. TW-97-333
Reporter KRM

1 **GTE MIDWEST INCORPORATED**

2 **REBUTTAL TESTIMONY OF DAVID W. EVANS**

3 **CASE NO. TW-97-333**

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

6 **A.** My name is David W. Evans, and my business address is 1000 GTE Dr.,
7 Wentzville MO. 63385.

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

9 **A.** I am employed by GTE Telephone Company as a Staff Administrator - Rate Design.

10 **Q. PLEASE DESCRIBE YOUR BACKGROUND, QUALIFICATIONS, AND**
11 **PROFESSIONAL EXPERIENCE.**

12 **A.** I received a Bachelor of Science degree from Webster University in 1989, majoring
13 in Business Administration. I have worked in the telecommunications industry for
14 18 years, working in pricing and cost analysis since 1986.

15 **Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE STATE REGULATORY**
16 **COMMISSIONS?**

17 **A.** Yes, I have testified before the regulatory commissions in Missouri, Kansas,
18 Nebraska, and Texas.

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

20 **A.** I am sponsoring rebuttal testimony in support of GTE's cost and rate analysis in the
21 matter of the provision of Community Optional Service (COS) and addressing
22 portions of the direct testimony of Mr. Robert Schoonmaker, Ms. Barbara

1 Meisenheimer, and Mr. Randy Klaus.

2 **Q. DO YOU AGREE WITH THE PRICING PROPOSAL SET OUT BY MR.**
3 **SCHOONMAKER IN HIS DIRECT TESTIMONY?**

4 **A.** No. The appropriate rate design for one-way reciprocal COS is one based on the
5 actual cost to provide the service. It is inappropriate to base a go-forward price
6 structure on the current rates as proposed by Mr. Schoonmaker. The current rates
7 do not necessarily reflect the cost to provide the service, nor do they take into
8 account changes in calling which will take place under the reciprocal plan. Based
9 on the analysis done by GTE and filed in my direct testimony, simply using 60% of
10 the current rate as proposed by Mr. Schoonmaker on page 20 of his direct
11 testimony, will not cover the cost of providing what is now called rural residence
12 COS service. It has also not been determined if 40% of the current rate will cover
13 the cost of the company providing the reciprocal COS service from what is now the
14 target exchange. Under the current plan the callers in the target exchange pay
15 nothing, and can call only COS subscribers in the petitioning exchange. Under the
16 reciprocal plan, these callers would pay for the COS service and would be able to
17 call all lines in the petitioning exchange. The traffic from the now target back to the
18 now petitioning exchange would likely be much different than the traffic of today,
19 and the cost which includes terminating charges would also be much different. For
20 this reason, the rate for COS should be determined based on the cost of the
21 company providing the service.

22 **Q. DO YOU AGREE WITH MS. MEISENHEIMER ON PAGE 3 OF HER DIRECT**

1 **TESTIMONY WHERE SHE STATES THAT COMPETITION SHOULD NOT**
2 **RESULT IN AN INCREASE IN PRICE FOR THE SAME SERVICE?**

3 **A.** No. That statement assumes that all existing prices are above the cost to provide
4 the service in question. The fact is, competition does not always drive down prices,
5 competition drives prices toward cost. If the price for a current service is below cost,
6 then the introduction of competition will move the price of that service upwards, until
7 the price is above the cost to provide the service and contributes to the common
8 overheads of the company.

9 **Q.** **DO YOU AGREE WITH MR. KLAUS ON PAGE 2 OF HIS DIRECT TESTIMONY**
10 **WHERE HE STATES THAT THE COST FOR COS SHOULD INCLUDE AN**
11 **IMPUTATION ANALYSIS?**

12 **A.** No. The inclusion of imputation in regard to COS service is inappropriate since this
13 service has been ordered into existence by the Commission to address a calling
14 scope inadequacy issue. GTE has previously stated this on the record in Case No.
15 TO-96-425 and the filing made by GTE in that case was approved. Neither the
16 offering nor the expansion of COS are the result of any company sponsored market
17 analysis. It is not appropriate to expect an expanded calling plan like COS to satisfy
18 the same imputation requirements as fully rated toll. It is also inappropriate to
19 require an imputation analysis for a service which has a fixed rate, or revenue,
20 while the expense which is associated with usage can increase. Once set, GTE has
21 neither control over the calling plan rates (revenue to GTE), nor the intralata access
22 rates (expense to GTE), but under imputation would be required to meet a test

whereby said revenue exceeds said expense. This is simply not appropriate. In addition, there is a concern for the level of rates required to recover the cost to provide the service. The rate structure proposed by GTE in this case, correctly balances the concerns of price level and cost. To consider imputation in the setting of rates, would artificially increase the rates and exaggerate the impact on the COS customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

IN THE MATTER OF AN)
INVESTIGATION INTO THE)
PROVISION OF COMMUNITY)
OPTIONAL CALLING SERVICE)
IN MISSOURI.)

CASE NO. TW-97-333

AFFIDAVIT OF DAVID W. EVANS

STATE OF MISSOURI)

) ss

COUNTY OF ST. CHARLES)

David W. Evans of lawful age, being duly sworn, deposes and states:

1. My name is David W. Evans. I am Staff Administrator - Rate Design for GTE Telephone Operations.
2. Attached hereto and made part hereof for all purposes is my rebuttal testimony.
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.



David W. Evans

Subscribed and sworn to before me this
29th day of April, 1997.



Notary Public

My Commission Expires: 11-3-97

STACI A. HUTH
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Commission Expires Nov. 3, 1997