

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

Exhibit No. 20
Date 6/23/97 Case No. TW-97-333
Reporter KEM

NP

GTE MIDWEST INCORPORATED

DIRECT TESTIMONY OF DAVID W. EVANS

CASE NO. TW-97-333

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

Q. PLEASE DESCRIBE YOUR BACKGROUND, QUALIFICATIONS, AND PROFESSIONAL EXPERIENCE.

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

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE STATE REGULATORY COMMISSIONS?

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

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am sponsoring testimony in support of GTE's cost and rate analysis in the matter of the provision of Community Optional Service (COS).

Q. IS THE PRICING MECHANISM SET OUT BY STAFF IN CASE NO. TT-96-398 APPROPRIATE FOR ONE-WAY RECIPROCAL COS?

A. No. The appropriate rate design for one-way reciprocal COS is one based on the actual cost to provide the service.

Q. HAVE YOU PERFORMED A COST AND RATE DESIGN ANALYSIS OF ONE-WAY

1 **RECIPROCAL COS?**

2 **A.** Yes.

3 **Q.** **PLEASE DESCRIBE THE CONTENT AND STRUCTURE OF THE COST ANALYSIS.**

4 **A.** The cost analysis is based on actual traffic data for the month of April 1996, for COS traffic
5 originating in GTE exchanges. The analysis is structured in two basic parts - the calculation
6 of the average cost per COS subscriber, and the pricing of a One-way COS offering based
7 on the calculated costs.

8 **Q.** **PLEASE DESCRIBE IN DETAIL HOW THE AVERAGE COST FOR A COS SUBSCRIBER**
9 **WAS CALCULATED.**

10 **A.** The analysis is based on GTE's actual COS traffic data for April 1996. The traffic was
11 segregated into GTE to GTE traffic, GTE to Southwestern Bell (SWBT) traffic, and GTE to
12 Other LEC traffic. The traffic from GTE to SWBT was further subdivided into Metro traffic and
13 Rural traffic. An average usage profile for a COS customer in each category was calculated
14 using the traffic data and the number of COS lines in the GTE exchange where the traffic
15 originated. The calculation resulted in an average calling profile for business and residence
16 COS customers in each category. The compilation of the COS lines can be found on Exhibit
17 DWE-2, page 1 of 1. The average cost per month per line was calculated using this profile
18 and applying the cost per first minute and per additional minute to the traffic profile.

19 **Q.** **HOW WAS THE COST FOR THE FIRST MINUTE AND EACH ADDITIONAL MINUTE**
20 **CALCULATED?**

21 **A.** In Case No. TO-96-425, GTE filed a cost for a first minute and each additional minute of use.
22 These costs were adjusted by removing the cost for billing and collection and contain no
23 costs which would be avoided in a wholesale environment. These costs are the appropriate
24 costs to use since the compensation mechanism for COS is based on toll and access, which
25 is precisely how the costs were derived in the prior case.

1 Q. PLEASE EXPLAIN THE CALCULATION USED TO ARRIVE AT THE FINAL CALCULATED
2 AVERAGE COST FOUND ON EXHIBIT DWE-1, PG. 2.

3 A. Using the average COS line profile and the per minute of use costs, the average cost for a
4 COS customer in the GTE to GTE category was calculated and can be found on Exhibit
5 DWE-1, page 1, line 18. Similarly the cost for an average COS line for the other categories
6 can be found on Exhibit DWE-1, page 1, at lines 42, and 66. These costs by category were
7 then carried over to Exhibit DWE-1, page 2. The individual costs by category were weighted
8 by the traffic percentages. This calculation is found on Exhibit DWE-1, page 2, lines 18
9 through 24.

10 Q. PLEASE EXPLAIN HOW THE AVERAGE RATE CALCULATION WAS DONE.

11 A. The average cost , found on Exhibit DWE-1, page 2, line 24, represents the TSLRIC for the
12 service. The rate was then calculated by considering some percentage of contribution over
13 TSLRIC. The contribution was set based on the interim resale discount rate of 26.93%.

14 Q. WHY WAS THE INTERIM RESALE DISCOUNT RATE USED TO CALCULATE
15 CONTRIBUTION?

16 A. The interim resale discount rate was used to assure GTE of receipt of at least the TSLRIC
17 for the service in the event that the service was purchased by a CLEC for the purpose of
18 resale.

19 Q. ARE YOU PROPOSING A CHANGE TO THE EXISTING RATE STRUCTURE OF THE COS
20 OFFERING?

21 A. Yes. The existing rate structure was based on a calculation of lost toll revenue and was
22 designed on a revenue neutral basis. The rate elements, Metro, Rural, Business, and
23 Residence were set to be revenue neutral in total, but each subset was not revenue neutral.
24 The proposed rate structure would have a rate for business and a rate for residence. The
25 differentiation between Metro and Rural would be eliminated since there is no real cost

1 differential between the rural customer set and the metro customer set. The rate for a
2 business COS subscriber would be \$29.95, and the rate for a residence COS subscriber
3 would be \$22.15.

4 **Q. PLEASE DESCRIBE THE EFFECT THAT THIS RATE DESIGN WOULD HAVE RELATIVE**
5 **TO THE EXISTING RATES.**

6 **A.** Subscribers would experience a rate decrease in all rate categories except rural residence.
7 The rate for a rural residence subscriber would increase by \$6.15.

8 **Q. WHAT IS THE BASIS FOR THIS RATE DESIGN?**

9 **A.** The proposed rate design is based on the cost to GTE to provide the service. The analysis
10 of the traffic and the calculation of the average cost per COS line clearly indicates the level
11 at which rates must be set. It would be imprudent and inconsistent for GTE to propose a rate
12 structure which did not cover the costs of the service.

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

14 **A.** Yes it does.
15

	TOTAL			BUSINESS			RESIDENCE		
1									
2									
3									
4									
5	GTE to GTE Orig. Rural Avg Cost Per Line								
6	(page 1, line 18)								
7									
8	GTE to SWBT Orig. Metro Avg Cost Per Line								
9	(page 1, line 42)								
10									
11	GTE to Other & SWBT Orig. Rural Avg. Cost Per Ln								
12	(page 1, line 68)								
13									
14									
15		Pct. of	Weighted		Pct. of	Weighted		Pct. of	Weighted
16		Total	Cost		Total	Cost		Total	Cost
17									
18	GTE to GTE Orig. Rural Traffic (MOU)	1,447,150	31.48%		111,892	30.66%		1,335,258	31.55%
19									
20	GTE to Other Orig. Metro Traffic (MOU)	756,841	16.46%		99,423	27.24%		657,418	15.54%
21									
22	GTE to Other Orig. Rural Traffic (MOU)	2,392,769	52.05%		153,633	42.10%		2,239,136	52.91%
23	Total Traffic (MOU)	4,596,760			364,948			4,231,812	
24	Total Weighted Cost per Line								
25									
26	Resale Discount Pct.								
27									
28	Per line Cost Adj. for Resale								
29									

GTE to GTE Rural Residence COS Lines			GTE to OTHER Rural Residence COS Lines			GTE to OTHER Metro Residence COS Lines		
GTER	COS Res	Take Rate	OTHR	COS Res	Take Rate	OTHM	COS Res	Take Rate
Bellevue	*****	*****	Amazonia	*****	*****	Branson	*****	*****
Bronaugh	*****	*****	Augusta	*****	*****	Branson West	*****	*****
Cabool	*****	*****	Avenue City	*****	*****	Buffalo	*****	*****
Caledonia	*****	*****	Avilla	*****	*****	Conway	*****	*****
Caulfield	*****	*****	Bland	*****	*****	Crane	*****	*****
Centralia	*****	*****	Bourbon	*****	*****	Everton	*****	*****
Clark	*****	*****	Bronaugh	*****	*****	Foley	*****	*****
Clarksdale	*****	*****	Cabool	*****	*****	Galena	*****	*****
Conway	*****	*****	Clarksdale	*****	*****	Niangua	*****	*****
Dora	*****	*****	Conway	*****	*****	Reeds Spring	*****	*****
Forsyth	*****	*****	Cosby	*****	*****	Seymour	*****	*****
Fremont	*****	*****	Easton	*****	*****			
Gower	*****	*****	Edgar Springs	*****	*****			
Helena	*****	*****	Ellsinore	*****	*****			
Houston	*****	*****	Fillmore	*****	*****			
Hunnewell	*****	*****	Gower	*****	*****			
Jenkins	*****	*****	Grovespring	*****	*****			
Jonesburg	*****	*****	Helena	*****	*****			
Koshkonong	*****	*****	Irondale	*****	*****			
Louisburg	*****	*****	La Plata	*****	*****			
Niangua	*****	*****	Laddonia	*****	*****			
Norwood	*****	*****	Marthasville	*****	*****			
Reeds Spring	*****	*****	Nebo	*****	*****			
Rockaway Beac	*****	*****	Rosendale	*****	*****			
Shelbyville	*****	*****	Savannah	*****	*****			
Sturgeon	*****	*****	Sheldon	*****	*****			
Thomasville	*****	*****	St. James	*****	*****			
Vanzant	*****	*****	Timber	*****	*****			
Walker	*****	*****	Vichy	*****	*****			
Wasola	*****	*****	Walker	*****	*****			
GTER RES	3883		OTHR RES	4212		OTHM RES	1262	

GTE to GTE Rural Business COS Lines			GTE to OTHER Rural Business COS Lines			GTE to OTHER Metro Business COS Lines		
GTER	COS Bus	Take Rate	OTHR	COS Bus	Take Rate	OTHM	COS Res	Take Rate
Bellevue	*****	*****	Amazonia	*****	*****	Branson	*****	*****
Bronaugh	*****	*****	Augusta	*****	*****	Branson West	*****	*****
Cabool	*****	*****	Avenue City	*****	*****	Buffalo	*****	*****
Caledonia	*****	*****	Avilla	*****	*****	Conway	*****	*****
Caulfield	*****	*****	Bland	*****	*****	Crane	*****	*****
Centralia	*****	*****	Bourbon	*****	*****	Everton	*****	*****
Clark	*****	*****	Bronaugh	*****	*****	Foley	*****	*****
Clarksdale	*****	*****	Cabool	*****	*****	Galena	*****	*****
Conway	*****	*****	Clarksdale	*****	*****	Niangua	*****	*****
Dora	*****	*****	Conway	*****	*****	Reeds Spring	*****	*****
Forsyth	*****	*****	Cosby	*****	*****	Seymour	*****	*****
Fremont	*****	*****	Easton	*****	*****			
Gower	*****	*****	Edgar Springs	*****	*****			
Helena	*****	*****	Ellsinore	*****	*****			
Houston	*****	*****	Fillmore	*****	*****			
Hunnewell	*****	*****	Gower	*****	*****			
Jenkins	*****	*****	Grovespring	*****	*****			
Jonesburg	*****	*****	Helena	*****	*****			
Koshkonong	*****	*****	Irondale	*****	*****			
Louisburg	*****	*****	La Plata	*****	*****			
Niangua	*****	*****	Laddonia	*****	*****			
Norwood	*****	*****	Marthasville	*****	*****			
Reeds Spring	*****	*****	Nebo	*****	*****			
Rockaway Beac	*****	*****	Rosendale	*****	*****			
Shelbyville	*****	*****	Savannah	*****	*****			
Sturgeon	*****	*****	Sheldon	*****	*****			
Thomasville	*****	*****	St. James	*****	*****			
Vanzant	*****	*****	Timber	*****	*****			
Walker	*****	*****	Vichy	*****	*****			
Wasola	*****	*****	Walker	*****	*****			
GTER BUS	239		OTHR BUS	239		OTHM BUS	100	

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

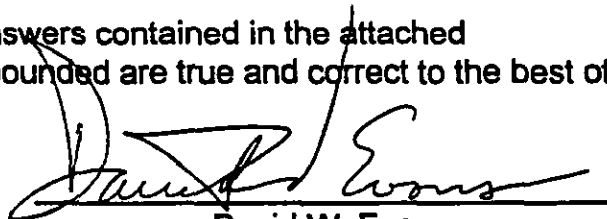
IN THE MATTER OF AN)
INVESTIGATION INTO THE)
PROVISION OF COMMUNITY) CASE NO. TW-97-333
OPTIONAL CALLING SERVICE)
IN MISSOURI.)

AFFIDAVIT OF DAVID W. EVANS

STATE OF MISSOURI)
COUNTY OF ST. CHARLES) ss

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 direct 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
10th day of April, 1997.


Notary Public

My Commission Expires: 11-3-97

