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

ISSUES MEMORANDUM

PROCEDURAL HISTORY

On March 7, 1997, the Commission issued its Order Establishing this docket to review the community optional services (COS) as they are now provided in the State of Missouri in light of local competition and equal access issues. In the Commission's May 7, 1997 Order all parties were required to specifically frame their testimony to correspond to a straw COS proposals and based upon that straw proposal to respond to specified issues and questions. The March 7, 1997 Order also adopted the following procedural schedule in this docket:

Notice of Participation Deadline	March 21, 1997
Direct Testimony to be Filed by All Parties	April 11, 1997
Rebuttal Testimony to be Filed by All Parties	May 2, 1997
Issues Memorandum Filed by All Parties	May 6, 1997
Hearings	May 15-16, 1997

In compliance with the Commission's March 7, 1997 Order notices of participation were timely filed on behalf of The Mid-Missouri Group of Local Exchange Telephone Companies (Mid-Mo Group), Southwestern Bell Telephone Company (SWBT), United Telephone Company of Missouri d/b/a Sprint and Sprint Communications Company, L.P. (United), MCI Telecommunications Corporation (MCI), Small Telephone Company Group (Small TelCo Group),

Exhibit No. 1
Date 6/23/97 Case No. TW-97-333
Reporter KRM

TCG St. Louis (TCG), Comptel-Mo (Comptel), AT&T of the Southwest, Inc. (AT&T) and GTE Midwest Incorporated (GTE).

On March 21, 1997, SWBT filed its Motion for Protective Order. The Commission issued its Order Adopting Protective Order on April 8, 1997. On April 9, 1997, certain members of Small TelCo Group filed a motion to withdraw.

In compliance with the Commission's March 7, 1997 Order direct testimony was timely filed on behalf of Mid-Mo Group, AT&T, Comptel, Small TelCo Group, the Office of the Public Counsel (OPC), GTE, SWBT, Staff and United.

On April 18, 1997, SWBT filed its Motion to Shorten Time for Discovery Responses or for Leave to Supplement Rebuttal Testimony. The Mid-Mo Group, Small TelCo Group and Staff each filed responses to SWBT's motion on April 22, 1997, April 23, 1997 and April 25, 1997, respectively.

On April 24, 1997 Comptel filed its Motion for Extension of Time Within Which to File Rebuttal Testimony. SWBT and the Small TelCo Group each filed responses to Comptel's Motion on April 25, 1997 and April 29, 1997, respectively.

On April 25, 1997, the Staff filed its Motion to Delay Procedural Schedule. The Small TelCo Group and Mid-Mo Group filed responses to the Staff's Motion on April 29, 1997. On May 1, 1997, the Commission issued its Order Changing Procedural Schedule in which it adopted the following amended procedural schedule in this docket:

Rebuttal Testimony	May 23, 1997 filed by 3:00 p.m.
Surrebuttal Testimony	June 9, 1997 filed by 3:00 p.m.

Issues of Issues Memorandum (submitted directly to Staff)	June 10, 1997
Issues Memorandum Filed	June 16, 1997

On May 1, 1997, SWBT filed its Motion to Compel Responses to Data Requests. On May 5, 1997, the Small TelCo Group filed its response to SWBT's Motion. On May 12, 1997, SWBT filed a letter with the Commission contending that while the Small TelCo Group provided some answers the Mid-Mo Group failed to provided SWBT with any data request answers. On May 27, 1997, the Commission issued its Order Granting Motion to Compel and Order Scheduling Hearing.

In compliance with the Commission's May 1, 1997 Order rebuttal testimony was timely filed on behalf of Mid-Mo Group, Comptel, Small TelCo Group, OPC, GTE, SWBT and the Staff.

On June 2, 1997, the Small TelCo Group filed its Motion to Compel Southwestern Bell Telephone Company to Answer Certain Data Requests. The Commission has not yet issued an order addressing the Small TelCo Group's Motion.

On June 5, 1997, MCI filed its Notice of Deposition of MCI Telecommunications Corporation. On June 10, 1997, the Small TelCo Group filed its Objection to Notice of Deposition of MCI Telecommunications Corporation witness Klaus. On June 12, 1997, MCI filed a Memorandum canceling the deposition of Randy Klaus.

In compliance with the Commission's May 1, 1997 Order surrebuttal testimony was timely filed on behalf of Mid-Mo Group, Comptel, MCI, Small TelCo Group, OPC, GTE, SWBT and United .

On June 12, 1997, the Commission issued its Notice Regarding Evidentiary Hearing.

CONTESTED ISSUES

I. Straw Proposals, Compensation Mechanism and Proposed Alternatives

A.1. Should Two-Way COS be modified to use 800/888 Number Based Service for the return calling portion of the service?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: United Telephone Company d/b/a Sprint (Sprint) does not believe that the 800/888 number based service option is the best solution. If the Commission desires a two-way service, Sprint recommends revising COS to mandatory EAS submitted to a vote of the customers in the involved exchanges. (Harper Direct, pgs. 6-7; Rebuttal, p. 7)

OPC: Public Counsel does not believe that this represents a feasible solution at this time. At present 800/888 numbers are a limited resource and the PSC would have to obtain FCC approval to use these numbers for this purpose.

GTE: GTE does not support this proposal.

Staff: No. The Staff does not believe the use of an 800/888 number based service for the return calling portion of two-way COS is reasonable.

The Staff's position is based upon several problems associated with the use of a second 800/888 number to receive COS return calls. First, as set out in detail in Staff witness, Gay Smith's, Direct testimony at pages 9-10, 800/888 numbers are rapidly being depleted. It is the position of the Staff that the utilization of 800/888 numbers would contribute to the depletion of those numbers as a much faster pace then projected and would prevent the general use of 800 numbers by all carriers to provision toll-free calling services. The Staff also believes the use of an 800/888 number to receive COS return calls will lead to customer confusion relating to multiple directory listings and who will pay for such listings, the appropriate source for multiple and 800 number directory assistance, and identifying whether the 800 number is a toll call from a given location. (Smith Direct, pp. 7-12).

SWBT: Southwestern Bell does not support maintaining two-way COS, but if the Commission determines that two-way COS must be continued the 800 number approach is the most viable two-way alternative proposed to date. The 800 approach, however, has several significant problems. Using 800/888 numbers to provide two-way COS contributes to the depletion of those numbers which are already approaching exhaust. Customers may also feel it is an inconvenience to have to use a second number for their toll free return calls, as they did when COS was provided using two telephone numbers and Remote Call Forwarding technology. Southwestern Bell, however, does not believe that it is necessary to make the 800 number service a mandatory component of COS for all customers. Instead, those customers with a need for toll free inward calling can use a wide variety of existing competitive 800 services and can customize the inward calling scopes of such services to suit their individual needs. (Bourneuf Direct, pp. 3-10; Bourneuf Rebuttal, pp. 14-18).

AT&T: AT&T does not believe two-way COS should be mandated by the Commission. If two-way service is required, however, AT&T does not believe the method for provisioning the service should be mandated. Service specificity limits flexibility for the development of superior solutions. Significant problems would arise through 800 service usage. Carriers should nonetheless be allowed to use 800 service as a competitive alternative if they desire to do so.

Small TelCo Group: The STCG supports the 800/888 proposal because this proposal most nearly resembles current COS and has the minimum impact on the thousands of customers who currently subscribe to COS. The 800/888 proposal preserves the important two-way calling feature of COS, a feature that the Commission has found to be a significant benefit to customers in past proceedings when it has considered and rejected proposals for a one-way reciprocal mechanism. The STCG also supports the 800/888 proposal because the return calling feature of COS could be used by customers in the target exchange regardless of which IXC they choose as their intraLATA carrier. (Schoonmaker Direct at 15)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

A.2. Should One-Way Reciprocal COS Service replace two-way COS Service?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: Sprint does not support one-way reciprocal COS service. Mandatory COS should be phased-out as customers are given new options for intraLATA 1+ service. Sprint recommends COS be revised to a one-way service from petitioning to target exchanges only and that it only be a mandatory offering until intraLATA toll dialing parity be implemented int he petitioning exchange. (Harper Direct pgs. 6-7; Rebuttal, p. 7)

OPC: Public Counsel opposes the elimination of two way COS. Elimination of Two way COS without a suitable substitute service will cause customers to lose the benefit of COS without compensating benefits. This is especially true in rural areas where competition will occur slower, if at all, to provide a substitute service.

GTE: If COS is not eliminated, GTE believes this is an appropriate way to provide COS service.

Staff: No. The Staff does not believe one-way reciprocal COS is a viable solution to the current problems with COS given the increasingly competitive nature of the telecommunications market. However, if required to choose between one-way reciprocal COS and two-way COS using an 800/888 number based service for return calls, the Staff believes that one-way reciprocal COS is the preferable method. (Smith Direct, pp. 12-15).

SWBT: Southwestern Bell recommends that the Commission modify COS to a one-way only service. In the alternative, it could be modified to a one-way reciprocally available service. There are no technical constraints to either solution. It should be offered as a local, 7-digit (or 10-digit) dialed service by the originating exchange LEC. In this manner, COS would be available to more customers in the petitioning exchanges, because their choice of 1+ intraLATA toll provider would not affect whether the one-way service was available to them. With the reciprocal COS alternative, customers in COS target exchanges with a community of interest to petitioning exchanges would have the opportunity to subscribe to COS for calling backing to those petitioning exchanges. These target exchange subscribers would also have a larger calling scope because they would be able to call all customers in a petitioning exchange toll free, not just COS customers. (Bourneuf Direct, pp. 2, 10).

AT&T: AT&T believes the service should be one-way. One-way only service is simple and easy to understand and administer.

Small TelCo Group: The STCG believes that this alternative is inferior to the continuation of COS through 800/888 service provisioning. This method does not allow the COS subscriber in the petitioning exchange any means for paying for the return service to encourage target exchange customers to call the petitioning exchange COS subscribers. It also does not meet the needs of COS subscribers who work or have children in school in the target exchange who need a means to call their homes without charge. (Schoonmaker Direct at 18)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

A.3. Should One-Way COS Service replace two-way COS Service?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: Sprint recommends that COS be replaced with one-way COS from the petitioning to target exchange or that COS be replaced with mandatory EAS submitted to a vote of end users in the community. (Harper Direct pgs. 6-7; Rebuttal p. 7; Surrebuttal, pg. 2-4)

OPC: Public Counsel takes this to mean that the target exchanges would have to qualify in their own right for a COS route. This is less acceptable than a proposal of reciprocal COS, and Public Counsel would object to this system. It makes the consumer worse off under competition.

GTE: GTE believes that if COS service is not eliminated, this is another appropriate way to provide COS service and more desirable that one-way reciprocal.

Staff: If the Commission determines that is not appropriate to completely eliminate COS at this time, it is the position of the Staff that one-way COS would be the best transitional service to migrate customers from traditional monopoly environment to the new competitive environment. (Smith Direct, pp. 12-15).

SWBT: SWBT recommends that the Commission modify COS to a one-way only service. In a competitive environment, SWBT believes the one-way only option is the best and most sustainable alternative.

AT&T: AT&T does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Small TelCo Group: The STCG believes the Commission should try to retain the two-way version of COS as much as possible while still accommodating intraLATA resubscription. However, if the Commission is not going to maintain the two-way feature of COS, then, at the very least, it should retain COS as a one-way service rather than eliminate the service entirely.

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

A.4. Should COS be eliminated completely.

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: Sprint believes mandatory COS (i.e. mandatory for a company to provide and not mandatory for customers to subscribe) should be eliminated upon implementation of 1+ intraLATA dialing parity. (Harper Direct pgs. 6-7; Rebuttal p. 7; Surrebuttal, pg. 2-4)

OPC: Public Counsel strongly opposes the elimination of two way COS without a suitable substitute available to COS subscribers which provide substantially equivalent service at a reasonable and affordable price. COS was created to meet customer's needs for an expanded local calling scope. Perhaps the issue should be should the existing exchanges be eliminated and redrawn to accommodate today's calling scopes desired by customers.

GTE: GTE believes that in the new competitive telecommunications market, COS should be eliminated as a Commission mandated service.

Staff: Ultimately, yes. However, the staff recognizes that some transitional method such as one-way COS may be necessary. The Staff's position on this issue is based in part on the fact that COS would not have been created but for the existing Primary Toll Carrier (PTC) plan. The Staff anticipates that the need for COS will be eliminated with the migration of customers from the COS plan to other competitive services that better meet the customers needs or desires. Accordingly, the Staff believes there will be a decline in the COS customer base which causes one to consider whether it is reasonable or necessary to go through all of the complexities involved in modifying the service. (Smith Rebuttal, pp.9-10).

SWBT: Southwestern Bell supports the elimination of the mandatory requirement to offer COS. No carrier should be required to offer a specific expanded calling service due to the high level of competition that exists. If the Commission determines that it is necessary to preserve some form of COS, Southwestern Bell believes that the Commission should make it a local offering. Southwestern Bell would be willing to offer it to customers in its own exchanges. (Bourneuf Direct, pp. 24-26).

AT&T: AT&T believes that the offering of COS should not be mandatory. Some carriers may not be able to provide the service in a specific format but may wish to market an alternative.

Small TelCo Group: The STCG believes that COS is a valuable service which meets the calling needs of a significant group of customers and, therefore, it should not be eliminated completely. The STCG believes that the Commission should try to retain existing COS (and its two-way feature) as much as possible while accommodating intraLATA resubscription.

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

B.1. If some form of COS is preserved, should the current compensation mechanism for COS also be retained?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: Sprint generally agrees with the position of SWBT and recommends that COS be provided by the LEC serving each individual exchange as a local service. The LEC of the petitioning COS exchange should be the provider of the one-way COS to customers int he petitioning exchange. Should the commission mandate one-way reciprocally available COS, the LEC of the target exchange should be the COS provider for the reciprocal (target exchange to petitioning exchange) service. In both cases, the LEC providing COS should pay terminating compensation to any other LEC whose network is used to terminate COS traffic. The terminating compensation should be at the appropriate rate for local calls. In each case, the COS provider would receive and retain the COS revenue. If the Commission adopts a two-way, 800 number-based serving arrangement, the LEC of the Petitioning exchange should be the COS provider. That LEC should receive the COS revenue and pay the appropriate terminating rate to the target exchange LEC. In addition, the COS provider should pay the target exchange LEC originating compensation for the origination of the target exchange to petitioning exchange traffic.

OPC: Public Counsel believes that whenever traffic is carried or is transported on a company's network, it should be compensated for it since that is consistent with a competitive environment.

GTE: GTE believes the current compensation mechanisms for COS should be retained.

Staff: Possibly. It is the position of the Staff that, if the Commission determines that one-way COS provisioned by the PTCs should be the alternative for the existing two-way COS arrangement, then the service should be considered an optional long distance toll service with intercompany compensation based on access charges. (Smith Direct p. 13). If however, the Commission alters the PTC plan so that the COS provider will change for a given exchange, then cost-based pricing as well as classifying COS as a local service may be a reasonable alternative to address the compensation issue. (Smith Rebuttal, p 4 and 5).

SWBT: As currently configured, COS is a highly subsidized service. The COS revenue falls dramatically short of covering even the direct cost of access paid out by the PTCs providing COS. Regardless of how the Commission reconfigures the COS retail product, the current compensation mechanism should be terminated. Southwestern Bell recommends that COS be provided by the LEC serving each individual exchange as a local service. The LEC of the petitioning COS exchange should be the provider of the one-way COS to customers in the petitioning exchange. Should the Commission mandate one-way reciprocally available COS, the LEC of the target exchange should be the COS provider for the reciprocal (target exchange to petitioning exchange) service. In both cases, the LEC providing COS should pay terminating compensation to any other LEC whose network is used to terminate COS traffic. The terminating compensation should be at terminating switched access rates less the Carrier Common Line element of the terminating LEC. In each case, the COS provider would receive and retain the COS revenue. If the Commission adopts a two-way, 800 number-based serving arrangement, the LEC of the Petitioning exchange should be the COS provider. That LEC should receive the COS revenue and pay terminating switched access, less CCL as previously described to the target exchange LEC. In addition, the COS provider should pay the target exchange LEC originating switched access, less CCL for the origination of the target exchange to petitioning exchange traffic. (Taylor Direct, pp. 2-5, 7-10).

AT&T: AT&T believes compensation should be competitively neutral. The compensation plan should allow all carriers an equal opportunity to provide the service. The current compensation mechanism would inhibit competitive development.

Small TelCo Group: The STCG believes that the intercompany compensation mechanism should not be changed even though there may need to be modifications to the provision of COS in order to accommodate intraLATA dialing parity. (Schoonmaker Direct at 19)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

B.2. If some form of COS is preserved, should it be classified as a local or a toll service?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: Sprint believes COS should be classified as a local service because this classification better reflects the nature of the service. Classification as local would also lower the cost of providing COS as well as eliminate any impact of intraLATA toll dialing parity or revisions to the PTC plan on the revised COS.

OPC: Public Counsel does not believe the designation of COS service is as crucial as having available to the consumer a reasonably priced and affordable flat rate plan which the customer can call the local community of interest without the inconvenience and limitations of toll restrictions and cost.

GTE: GTE supports the continued classification of COS as a toll service.

Staff: Absent any modification to the PTC plan, the Commission should continue to classify COS as a toll service(Smith Rebuttal pp. 3-5). However, if the Commission ultimately wants to modify or abrogate the PTC plan and make a different party responsible for providing COS to a particular exchange, the Commission may want to analyze the financial impact on the involved companies at that time.

SWBT: Southwestern Bell believes the Commission should classify COS as local because it would be more reflective of COS' establishment to meet a social goal. In addition, doing so will avoid the negative impacts of 1+ intraLATA presubscription on COS (i.e., as a local service, COS' availability to customers will not be affected by their choice of intraLATA toll provider). Also, if COS is local, changes to the PTC Plan in docket TO-97-220 will not affect COS. Customers want local services and there are no technical constraints in providing COS as local. If the Commission decides to classify COS as toll, it should not mandate its provision because toll is a competitive service. (Bourneuf Direct, pp. 18-19).

AT&T: It is AT&T's position that COS is a substitute for toll and has in fact significantly restricted toll revenues for those IXC's that would otherwise compete for this traffic. AT&T believes that the proper solution is to make the revised plan as competitively neutral as possible and not to extend the current incumbent LEC virtually exclusive claim to this traffic.

Small TelCo Group: STAG believes that COS should continue to be classified as a toll service.

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

B.3. If any form of COS is preserved, should aggregation and/or resale of COS service be allowed?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: Resale should be permitted of any retail service offering. However, tariff restrictions, including aggregation, should still apply.

OPC: Public Counsel suggests that COS should be available for resale consistent with the Federal Telecommunications Act. COS should be allowed to be aggregate, but Public Counsel would support a separate rate for those who aggregate this service and resell it for Internet or other high volume users.

GTE: GTE believes that it currently is required under its AT&T Arbitration Order to resell COS to competitive local exchange carriers. GTE does not believe it should be required to resell any service that is priced below cost. In any case, aggregation of COS service should not be allowed.

Staff: Staff took no position on this issue in testimony. However, if resale of COS is allowed, current tariff language needs to be modified to allow all local exchange companies (LECs) to aggregate or resell the service. (Smith Rebuttal, pp. 6-9).

SWBT: If the Commission preserves some form of COS, Southwestern Bell acknowledges that consistent with the Telecommunications Act, it is available for resale by other LSPS. If resale is permitted, no resale discount should apply if the price set by the Commission does not cover all costs of providing the service. Aggregation, however, should not be permitted. Retail services are priced based on individual end user usage levels. If aggregation were permitted, a carrier would not be able to sustain such a price for individual end user usage levels. (Bourneuf Direct, pp. 36-37).

AT&T: AT&T believes resale must be allowed but does not believe that aggregation is necessary, depending on what type of final design of service and pricing methodology used.

Small TelCo Group: The Small TelCo Group has no objection to a prohibition on aggregation (although there is no such prohibition in existing COS tariffs). A prohibition on resale may not be appropriate in light of the Telecommunications Act of 1996. The Small TelCo Group does not believe, however, that the use of COS by Internet service providers (ISPs), as it has been described in the testimony in this case, constitutes aggregation, resale or sharing of COS.

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

B.4. What is(are) the potential impact(s) of expected changes in the Primary Toll Carrier Plan on COS?

MCI: MCI does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

Sprint: If, as Sprint recommends, COS is revised to a one-way service provided by the LEC serving the petitioning exchange or is revised to become mandatory EAS, then any changes to the PTC should have no impact on the revised COS service. However, any resolution of COS issues that is dependent upon the continuation of a mandatory COS offering by the existing PTCs is only a short-term solution since the PTC plan, as currently configured, cannot continue in an 1+ intraLATA environment.

OPC: Public Counsel believes that the elimination of the PTC plan will make COS too difficult to administer. The PSC should set up some mechanism to transition COS in the event the PTC plan is eliminated or is substantially changed.

GTE: If the PTC plan is changed to a terminating compensation plan, optional toll calling plans will become the responsibility of the serving LEC.

Staff: Background

COS would not exist today if it had not been for the PTC plan. When considering expanded calling scopes back in 1987 not all LECs could technically provide COS or any similar service between exchanges and other LECs without building dedicated facilities or devising a specialized data base, network, or billing system. The PTC plan provided the avenue necessary whereby the PTC could handle the traffic between the various exchanges. At that time, PACS could more easily provide an optional expanded calling plan than other LECs. The PACS could technically provide COS through slight modifications to their practices used for intraLATA toll traffic.

Current Conditions

Changes in COS need to be considered in conjunction with changes to the PTC plan. COS is presently classified as an intraLATA toll service that is provided through the PACS. Any changes made to COS can impact the PTC plan and vice versa. For instance, if the Commission wants to keep COS service as presently offered, then the PTC plan at least in some form will have to remain intact. Similarly, changes to the PTC plan can impact COS. For example, if the PTC plan is revised so that responsibility for providing intraLATA resubscription shifts from the PTC to the LEC serving the petitioning exchange, then this possibility brings up other issues such as toll versus local classification, financial impacts on the involved companies and COS pricing.

At this time, it is unclear whether the PTC plan can stay intact. No party has proposed a reasonable alternative to retain two-way COS short of keeping the PTC plan in tact and not implementing intraLATA resubscription in exchanges involved with COS. The Staff does not believe preventing exchanges from having intraLATA resubscription is a viable option as it deprives these customers of the ability to have the benefits of competition.

SWBT: Southwestern Bell provides COS for many SC exchanges as the PTC for those exchanges. The PTC Plan is not compatible with intraLATA presubscription. Southwestern Bell, in Case No. TO-97-220 seeks to be relieved of PTC responsibilities for SC exchanges. IntraLATA toll provider responsibility for those exchanges should pass either to IXCs who have indicated a willingness to provide 1+ intraLATA toll or to the SCs who would assume toll carrier responsibility. That neither the IXCs nor SCs have indicated a willingness to provide COS as a toll service is one reason COS should be a local service provided by the originating LEC. If the Commission makes that decision in this case, the COS issues will not have to be revisited in the PTC case. If the Commission determines that COS should remain a toll service, Southwestern Bell believes the issue will be revisited in Case No. TO-97-220 and could potentially alter some parties' willingness to be intraLATA toll providers in SC exchanges. (Taylor Direct, p. 10-12).

AT&T: AT&T is aware of potential changes in toll responsibility among the current providers as a result of proposed changes. It is not possible at this time to predict what effect those changes may have on COS or similar types of services.

Small TelCo Group: The STCG agrees that changes in the Primary Toll Carrier Plan may have impacts (some significant) upon the way in which COS is provided. However, without knowing the specific changes in the Primary Toll Carrier Plan, The STCG cannot comment on what, if any, pacts those potential changes may have on the provision of COS.

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: CompTel does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

II. <u>Issues Set by the Commission</u>

A. Is the appropriate pricing mechanism for one-way COS with reciprocal service the same as set out by the Staff in Case No. TT-96-398? If not, so indicate and substantiate an alternative proposal.

MCI: MCI believes the one-way COS must be set at a level which recovers its cost, including imputation by the incumbent LEC of the inflated prices(s) of its intrastate switched access services. MCI does not have the cost information necessary to know whether a rate equal to 50 percent of the existing two-way COS rate would recover such costs or not.

Imputation will reduce the potential for "price squeezes." Imputation is intended to prevent the ILECs from subjecting dependent contractors to price squeezes which can happen when a firm with market power sells essential inputs in the retail market.

The price for one-way COS must be set at or above the excessive rate charges for intrastate switched access, plus service-specific costs such as marketing, and billing and collection. Unless the retail price of one-way COS covers such cost, even more efficient competitors will find it extremely difficult if not impossible to compete against the ILECs because of the artificial and unearned cost disadvantage.

Sprint: No, the price for COS in whatever form is adopted as a result of this docket should be based on the actual cost of providing the service. The problem of maintaining prices at a level below cost and the subsidies that are created by this policy should not be exacerbated in today's competitive environment by adding additional services priced in this manner when it can be avoided. (Harper Direct, pg. 1-3)

OPC: Public Counsel does not believe that Staff's proposal to split the current COS charge is an appropriate pricing method since it reflects neither the cost or value of the service. Public Counsel is unable at this time to offer a specific pricing method in light of the new data generated in this docket until it completes further analysis.

GTE: GTE supports the setting of COS prices so that they at least recover their cost of service.

Staff: Yes. The one-way COS rate will need to be modified for either the one-way reciprocal or the one-way only COS. The Staff continues to support its position in Commission Cases No. TT-96-398 and No. TO-97-253 that a fifty percent (50%) reduction of the existing two-way COS rate is the appropriate rate for one-way COS.

SWBT: No. Southwestern Bell believes that the one-way COS prices should be company-specific prices and should be based on each participating companies' individual circumstances.

These prices should be set so that the service's revenue exceeds the cost to provide it, including applicable intercompany compensation expenses. (Bourneuf Direct, pp. 20-24).

AT&T: AT&T believes that the appropriate pricing mechanism is cost based and competitively neutral for all carriers, LEC and IXC.

Small TelCo Group: The STCG does not agree with the pricing mechanism for one-way reciprocal COS set out by the Staff in Case No. TT-96-398. Review of calling data indicates that there is great calling under the current plan from the petitioning to the target exchange; thus, traffic from the petitioning exchange to the target exchange appears to have greater value. For this reason, the COS rate in the petitioning exchange should be set at a level higher than 50% of the two-way rates, while the rate in the target exchange should be less than 50% of the two-way rates. The STCG believes the one-way rate from the petitioning exchange should be 60% of the two-way rate, and the one-way rate from the target exchange should be 40% of the two-way rate. (Schoonmaker Direct at 19-20).

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: No, Staff's proposal of cutting rates in half to reflect only one way service is inappropriate. COS is a subsidized service when offered on a two-way basis. There is no indication that the elimination of the "reverse-calling" feature of COS will cause the service to be priced above cost. It is easy for a customer to reach a level of usage where the customer pays less on a per minute basis than a carrier would for the access component. Cutting the COS rate in half cuts the break-even point in half and greatly exacerbates the anti-competitive effect of this service. All indications are that it will remain subsidized. Therefore, it is totally inappropriate to cut the existing price of COS in half to recognize the fact that "reverse -calling" is no longer available.

CompTel-Mo proposes as an alternative service with these features: exchange conversion, cost based rates and resale at a wholesale rate. The service should be priced to reflect underlying costs in order to force COS routes to become subject to competition. Proper pricing would eliminate cross-subsidization. Eliminating cross-subsidization would remove the unfair burden placed on others (non-users of COS) that exists today.

B. Shall all competitive LECs be required to offer this service?

MCI: MCI believes the mandatory imposition of COS on CLEC's will likely be to costly and too burdensome to administer. Moreover, such a requirement is at odds with introducing competition into the industry. Competitors should be given the opportunity to provide COS or COS-like services, but they should not be required to do so. Retail telecommunications offerings competitive to COS, like other toll-calling arrangements, should be allowed to develop, over time, without regulatory intervention or prescription. Market forces together with appropriate implementation of the changes mandated by the Telecommunications Acct of 1996 will provide consumers with more choices, better service and the lowest possible prices.

Sprint: No. If COS is a valuable service to end users and a significant number of customers demand COS or a similar service, a competitor will respond with an offering or be at a competitive disadvantage for the group of customers. As of March 1997, less than 1% of Sprint's customers subscribe to COS. To mandate that new entrants must provide a service that would create unique billing processes for such a limited set of customers could be viewed as a barrier to entry. (Harper Direct, pg. 3-4)

OPC: The incumbent should provide COS. Upon entry of competitive LECs they should be required to provide that service, especially if it is classified as local service. It would also depend on the degree of competition in the exchange.

Sprint: GTE does not believe that any LEC should be required to offer this service.

Staff: No. The Staff believes that as competition progresses competitive LECs will propose services compatible to or better than COS. Competitive LECs should simply have the opportunity to offer such plans. Thus, COS should be available for resale.

SWBT: No. Due to the high degree of competition in the telecommunications market today, Southwestern Bell does not believe that any company should be required to offer specific expanded calling services. Customers in the market should determine the calling services that will be offered by competitors and such competition should eliminate the need for mandated services. If the Commission determines that it is necessary to mandate the continued provision of COS, then it should classify COS as a local service to reflect the fact that its offering has been mandated in order to meet a social goal. Only if the Commission requires LECs to offer an expanded calling service below cost, it should require all competitive LECs to offer the service so that no single competitor is disadvantaged relative to others (and no resale discount should apply). (Bourneuf Direct, pp. 24-26).

AT&T: No, AT&T believes that in today's competitive environment no carrier should be required to offer this service. Customer demand will require competitors to offer services or provide preferred alternatives in order to keep valuable customers. AT&T further believes that some CLECs may not be able to provide this COS. AT&T further believes that LECs and CLECs should be treated equally in this regard. AT&T believes that today's COS replaces toll which is lost to competing intraLATA providers. As such, the basic concern should be regarding competitive toll providers not competitive LECs which need not provide intraLATA toll.

Small TelCo Group: The STCG takes no position, at this time, as to whether all competitive LECs should be required to offer COS. (Schoonmaker Direct at 20)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: Competitive LECs should not be required to offer this service. It is questionable whether the Commission has the authority to order each competitive LEC to provide this service. Requiring provision of a particular telecommunications service runs counter to the competitive market envisioned by federal policy.

C. What, if any, change must be made in the primary toll carrier (PTC) plan to accommodate or accomplish the proposed COS changes herein?

MCI: While the PTC plan must be eliminated to implement intraLATA equal access throughout the state, MCI is not aware of any changes that are necessary specifically for the purpose of modifying COS.

Sprint: The PTC plan is inconsistent with the introduction of intraLATA toll dialing parity. The terms of the PTC plan dictate that all 1+ dialed intraLATA traffic be delivered to the PTC for that exchange. Toll dialing parity would violate this provision. However, the specific straw proposals herein do not appear to uniquely impact the PTC plan. (Harper Direct p. 4)

OPC: Public Counsel does not have any specific changes to recommend for the PTC plan at this time.

GTE: GTE believes that no changes are necessary to accomplish the straw proposal.

Staff: While the Staff does not believe any specific changes to the PTC plan are necessary to implement the Staff's recommendations, as set out in detail under Issue I.2.B., the Staff notes that changes to the PTC plan can impact COS.

SWBT: If the Commission changes COS to a local one-way only or one-way reciprocally available service with the intercompany compensation mechanism SWBT proposes, little if any changes will have to be made to the PTC Plan to accommodate changes to COS. (There are, however, other reasons outside this docket to change the PTC Plan.) (Taylor Direct, pp. 10-11).

AT&T: AT&T is not aware of any changes which must be made to the PTC plan to accommodate the proposed changes.

Small TelCo Group: The STCG does not believed that any changes need to be made in the PTC plan to accommodate or accomplish the proposed modification of COS to provision return calling through 800/888 calling. The issue of dialing parity and other changes int he industry have called the PTC plan into question. The Commission has already established a preliminary procedural schedule in Case No. TO-97-220 to deal with these issues. As the Commission considers these issues in that case, along with other cases such as the state universal service fund, any changes proposed in those cases that would impact the provision of COS will need to consider the COS impacts in conjunction with the changes that are proposed. (Schoonmaker Direct at 21)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: The PTC should not be required to carry this traffic as anything other than traditional toll. The PTC should be barred from collecting a cross-subsidy that is, today, an essential component of this service. With the advent of "one-plus" resubscription the market should dictate the services provided between the exchanges currently covered by COS. Competition should act as a constraint as to how high the "special" prices can go. Traditional toll will act as a Commission-imposed rate ceiling in such an environment. On the other end of the spectrum, underlying costs will act as a rate floor for traffic covered by COS.

D. Shall the Commission stay all pending and future COS applications?

MCI: MCI believes that a stay would reduce consumer confusion while the Commission considers modifying COS.

Sprint: Yes.

OPC: Public Counsel opposes the stay of current COS petitions. These consumers have a right to this service if they meet the qualifications established by the Commission. It is unknown how long a substitute, if any, will be approved by the Commission or developed by competition. The consumer should not be worse off due to competition and should receive the relief from toll rates now for calling within the community of interest.

GTE: GTE believes the Commission should stay all pending and future COS applications.

Staff: Yes. The Staff recommends that the Commission dismiss all COS dockets with petitions pending for which calling study results have not yet been submitted to the Commission. The Staff further recommends that no future COS petitions be accepted.

SWBT: Yes. Southwestern Bell believes that COS should be grandfathered to existing locations as a local service and that all pending and future COS applications should be stayed. (Bourneuf Direct, pp. 26-28).

AT&T: Yes. AT&T believes that the Commission should stay all pending and future COS applications pending resolution of these issues in order to avoid unnecessary customer unhappiness and confusion.

Small TelCo Group: Since it is much easier to give customers a new and improved service than it is to modify or take away an existing service, the STCG recommends that the Commission stay all pending and future COS applications until such time as issues related to the future of COS and the PTC plan have been decided and, if appropriate, implemented. When those decisions have been made, the Commission will be in a much better position to determine whether and how COS should be extended to additional communities. (Schoonmaker Direct at 24-25)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: The Commission should stay all pending and future COS applications.

E. What is the participants' proposal for educating the public?

MCI: Assuming the Commission implements one-way COS, MCI believes that notice through separate mailers by ILEC's, directory information, and Commission press releases should be more than adequate.

Sprint: The extent of public education efforts will depend upon the extend of the revisions to the existing COS. When COS was introduced, LECs used separate letters to notify customers. The letters were reviewed by Staff. This process could be used again. (Harper Direct, p. 5)

OPC: Public Counsel believes that public hearings in the affected communities should be required especially if major reductions in COS coverage or increase in price occurs. Local television, radio and press should be advised of the changes and what it means for consumers. In addition to hearings, community forums with questions and answers is an option. Bill inserts is also recommended.

GTE: GTE believes that a combination of news releases (target exchange), direct mail to COS subscribers and bill inserts to target exchange customers should be used.

Staff: The Staff makes the following recommendations and suggested optional considerations:

Recommendations -

1) The Commission's Information Officer should issue a press release indicating the change in service and why, the effective date of the new service, and the date by which customers must call their telephone company to change their account before the effective date of the new service, and the Commission's Hotline and/or Voice-Mail telephone number which would be to all media listed in the current Missouri State Official Manual;

2) A brief information brochure should be developed by all involved parties to be included in each petitioning and targeted exchange customer's bill. This brochure should include why the service is being changed, the effective date of the new service, a deadline date for customers who may want to change their account prior to the effective date to avoid fractional billing, the telephone contact numbers for the LEC and the Commission, and a positive statement informing customers of other future telecommunications changes (i.e., local competition and Internet access); and

3) The Commission's home page should have detailed information explaining the changes and why the changes are necessary in addition to an on-line form for filing complaints.

Suggested Optional Considerations - (Note the Staff is not suggesting the Commission mandate the following optional considerations. Instead these considerations are provided simply as additional ideas for the Commission and the parties to consider.)

1) The Commissioners and the Staff should conduct an open forum meeting by invitation from the Commission to the members of the Missouri General Assembly, to discuss why changes were made to COS. This recommendation is based upon the success of a previous meeting which dealt with the expanded calling services established by Case No. TO-92-306;

2) Telephone companies' public relations managers should conduct information forums with community and business leaders; and

3) The telephone companies and the Commission should establish a toll-free number with a Voice Mail menu with options for information regarding the changes which would not only provide education for the consumer but would also provide an option to leave the mailbox to speak directly to a consumer representative if questions were not answered.

SWBT: Southwestern Bell believes that COS subscribers in the petitioning exchanges and all customers in target exchanges should be notified on existing routes prior to changes taking place in their exchange. Existing COS subscribers should be notified via a direct mail letter, separate from the bill, sent by the end office LEC. If the Commission adopts the one-way reciprocal COS proposal, target exchange customers should be similarly notified by a direct mail letter. If the Commission adopts the one-way only alternative or the 800 number return calling alternative, the target exchange customer should be notified via a bill message by the end office LEC. In all cases, the letters or bill message should explain the service change and any impact on customer rates. The specific contents of the letters and bill messages Southwestern Bell proposes are outlined in the Direct Testimony of Debbie Bourneuf. (Bourneuf Direct, pp. 28-32).

AT&T: AT&T defers to current providers with regard to existing customers. In addition, depending on the final design of the alternative service, potential customers will need to be notified of changes. In a competitive environment, normal marketing activity will provide such customers with adequate notice of alternatives.

Small TelCo Group: If the Commission adopts the 800/888 proposal for modifying COS, the STCG believes that education of the public should involve a two-step approach. First, letter notification from the LEC should inform COS subscribers and customers in the target exchange of the change that will take place in the offering of COS. The second step of notification would be related to the intraLATA resubscription implementation. As implementation of this change takes place in the petitioning exchange, COS customers should be notified in writing of the impacts that subscribing to carriers other than the current PTC would have on their COS participation.

If the Commission chooses a one-way reciprocal COS, existing COS customers should be notified of the proposed change before the Commission makes a final determination. COS customers should have the opportunity to submit comments and participate in public hearings before the Commission withdraws the existing service. If the Commission then decides to pursue a one-way reciprocal offering, COS customers and customers in the target exchange should be notified by letter of the modifications in the plan, including any service provision and rate changes, so they can choose whether to continue to subscribe to the modified COS. (Schoonmaker Direct at 22-24)

Mid-Mo Group: Mid-Mo Group adopts the position of the Small TelCo Group on this issue.

TCG: TCG does not take a position at this time but reserves the right to develop a position during hearing and file briefs.

CompTel: Those affected by any change concerning the status of COS can be notified by a separate mailing.

F. Please "explore and discuss the potential of -LATAwide or statewide flat-rate COS."

MCI: MCI believes that the further development and/or expansion of optional toll calling plans should be left up to the competitive marketplace. With the introduction of 1 + intraLATA

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fund proceeding and a
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Co Group on this issue.

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riate implementation of the Telecommunications Act of 1996, the invisible ed to as "market forces" will see that consumers get what they want when ıey want it.

itive carriers should be free to develop plans that meet customer's expanding γ, COS is available in 12 of 79 Sprint exchanges. In those exchanges, less stomers overall, subscribe to the service. Of those eligible to subscribe, ;o. This level of subscriber ship simply does not appear to justify creation ewide service. (Harper Direct, p. 5.)

ounsel believes that such a service would be attractive to many customers. ably priced, this would be a suitable substitute for COS for some consumers. el is concerned about the proper pricing and its competitive effect for new ve competition.

s not believe that LATAwide or statewide flat rate COS plans should be rier, whether an incumbent local exchange carrier or competitive local e extent that firms may propose viable plans of their own, the Commission ow such plans to go forward.

f believes any LATAwide or statewide plan should not be mandated by the if a such plan is offered by an incumbent LEC, it should be available for

vestern Bell does not believe that a <u>two-way</u> LATAwide or statewide flat-rate le alternative. The same type of problems that currently exist with return calling on two-way COS would also apply to a LATAwide or statewide two-way service but on a greater scale. Southwestern Bell, however, believes that customers would find a one-way LATAwide flat-rate COS very appealing. In contrast with a route-specific plan, a LATAwide calling service is more likely to include an individual customer's communities of interest, even in those situations where the individual's calling pattern may be quite different from that of the average caller in his or her exchange. Such a service would be automatically available on an optional basis to all customers. Therefore, customers would no longer have to submit specific petitions and pass calling criteria in order to obtain a desired expanded calling scope. For such an offering to be viable, the offering company must be permitted to offer the service with tariff use limitations prohibiting subscribers or resellers from aggregating the calling of multiple end users. It should be permitted to be offered as an optional local service, available in the local exchange tariff, provided with a local dialing pattern (no 1+), and subject to local dialing parity requirements. But carriers who are PTCs should not be required to make the service available on an originating basis to customers of SCs. It should not be a mandated offering for all LECs. As the service would be available for resale, it should not be subject to imputation of access charges. (Bourneuf Direct, pp. 33-39).

AT&T: AT&T does not believe that a LATAwide or statewide COS arrangement is warranted. There are many plans that which meet these needs. A variety of discount plans, as well as WATS, for example, provide similar service. LATAwide or Statewide service would almost certainly be anti-competitive and depending on pricing and compensation mechanisms, might well destroy incentives for competitive toll provision in Missouri. This result would not be in the best interest of Missouri customers.

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ORDER OF CROSS

The parties will submit an Order of Cross-examination to the administrative law judge before hearings begin.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 17th day of June, 1997.

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