

Exhibit No.:
Issues: Reasonableness of Rates
Witness: Bill Peters
Sponsoring Party: Mo PSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: IT-2004-0015
Date Testimony Prepared: September 26, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

BILL PETERS

**SOUTHWESTERN BELL TELEPHONE COMPANY,
D/B/A SBC MISSOURI**

CASE NO. IT-2004-0015

**Jefferson City, Missouri
September 2003**

****Denotes Highly Confidential Information****

NP

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

In the Matter of Southwestern Bell)
Telephone Company, d/b/a SBC Missouri's)
Proposed Revised Tariff Sheet Intended to)
Increase by Eight Percent the Rates for Line)
Status Verification and Busy Line Interrupt)
as Authorized by Section 392.245, RSMo,)
the Price Cap Statute.)

Case No. IT-2004-0015

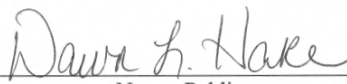
AFFIDAVIT OF BILL PETERS

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Bill Peters, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 24 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.


Bill Peters

Subscribed and sworn to before me this 25th day of September, 2003.


Notary Public

DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My commission expires Jan 9, 2005

TABLE OF CONTENTS

1		
2		
3	Issue Discussion.....	2
4	Provisioning of Busy Line Interrupt and Line Status Verification	3
5	Rates.....	6
6	Rate Comparisons	7
7	Costs.....	13
8	Revenue.....	16
9	Demand	17
10	Competitiveness of BLI and LSV	19
11	Critical Service Consideration	21
12	Other Considerations	21
13	Summary	22

REBUTTAL TESTIMONY

OF

BILL PETERS

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. IT-2004-0015

Q. Please state your name and give your business address.

A. My name is Bill Peters and my business address is Post Office Box 360, Governor Office Building, Suite 500, 200 Madison Street, Jefferson City, Missouri 65102-0360.

Q. By whom are you employed?

A. I am employed by the Missouri Public Service Commission (PSC or Commission).

Q. How long and in what capacity have you been employed at the mission?

A. I was hired as a Regulatory Economist for the Telecommunications Department Staff (Staff) in September 2001.

Q. Describe your educational background and employment history.

A. I received a B.S. in Economics from Illinois State University in August of 1998 and an M.S. in Applied Economics from the same institution in May of 2001. My Master's sequence was "Regulation of Public Utilities: Telecommunications, Electricity and Natural Gas." In between my degrees, I volunteered with Peace Corps – Armenia as an instructor of Economics and English at Shirak University in Gumri, Armenia. Also,

1998 and an M.S. in Applied Economics from the same institution in May of 2001. My

Master's sequence was "Regulation of Public Utilities: Telecommunications, Electricity

and Natural Gas.” In between my degrees, I volunteered with Peace Corps – Armenia as

an instructor of Economics and English at Shirak University in Gumri, Armenia. Also,

Rebuttal Testimony of
Bill Peters

1 after returning from the Peace Corps, I completed a four-month internship at the Citizens
2 Utility Board, a consumer advocacy organization, in Chicago, IL.

3 Q. What are your duties at the Commission?

4 A. Since beginning employment with the Commission, I have reviewed,
5 analyzed and written recommendations for various case filings, tariff filings and
6 interconnection agreements. Filings are reviewed and recommendations are written to
7 ensure consistency with the public interest, Missouri and Federal rules and regulations. I
8 have also reviewed various cost studies and conducted general research related to
9 telecommunications and economics.

10 Q. Have you previously testified before the Commission?

11 A. Yes, I testified in Case No. TO-2002-222, *In the Matter of the Petition of*
12 *MCImetro Access Transmission Services LLC, Brooks Fiber Communications of*
13 *Missouri, Inc., and MCI WorldCom Communications, Inc., for Arbitration of an*
14 *Interconnection Agreement With Southwestern Bell Telephone Company Under the*
15 *Telecommunications Act of 1996*. I have also filed testimony in Case No. TC-2002-1076,
16 Staff of the Missouri Public Service Commission, Complainant, v. BPS Telephone
17 Company, Respondent.

18 **Issue Discussion**
19

20 Q. What is the purpose of your testimony?

21 A. My testimony will explore the reasonableness of SBC's proposed rates for
22 Line Status Verification and Busy Line Interrupt services contained in SBC Missouri's
23 Local Exchange Tariff PSC MO No. 24. Before I discuss the reasonableness of SBC's
24 proposed rates for Busy Line Interrupt and Line Status Verification, I will first expand

Rebuttal Testimony of
Bill Peters

1 upon the description contained in SBC witness Craig Unruh's testimony on the
2 provisioning of these services.

3 In order to clarify the purpose of my testimony, it seems prudent to mention a
4 couple of topics I will not address. I will not address the Commission's authority to
5 reject SBC's proposed rate increases for these services. Such authority is a legal issue,
6 and I am not an attorney. Further, I will not address the reasonableness of 8% annual
7 price adjustments for non-basic services. Staff witness Chris Thomas will address this
8 issue in his testimony.

9 **Provisioning of Busy Line Interrupt and Line Status Verification**

10 Q. What is Line Status Verification (LSV) Service?

11 A. Line Status Verification allows a caller, with the assistance of an operator,
12 to check for conversation on another telephone line. A caller first dials "zero" to connect
13 to the operator, and subsequently requests the operator verify conversation on another
14 line. The service in SBC's Local Exchange Tariff, PSC MO No. 24, only covers
15 telephone line verification within an exchange. The intraLATA interexchange version of
16 this service is contained in SBC's IntraLATA Long Distance Tariff, PSC MO No. 26.
17 Regardless of whether the caller is requesting local BLI or intraLATA interexchange
18 BLI, the caller simply dials "zero" and is connected to an SBC operator who proceeds to
19 take the appropriate steps to verify conversation on the targeted telephone line. SBC
20 cannot process interLATA requests for LSV.

21 Q. What is Busy Line Interrupt (BLI) Service?

22 A. Busy Line Interrupt allows a caller to request the operator interrupt
23 conversation on another telephone line. After obtaining the caller's name and billing

Rebuttal Testimony of
Bill Peters

1 information, the operator connects to the target party's telephone line. A tone sounds on
2 the target party's line and the operator subsequently notifies the target party that the caller
3 has requested the line be interrupted. The operator then instructs the target party to
4 terminate the original telephone call in order to receive a call from the caller. Like LSV,
5 SBC offers BLI as both local and intraLATA interexchange services. Regardless of
6 whether the caller is requesting local BLI or intraLATA interexchange BLI, the caller
7 simply dials "zero" and is connected to an SBC operator who proceeds to take the
8 appropriate steps to interrupt the conversation on a busy line. SBC cannot process
9 interLATA requests for BLI.

10 Q. Are the BLI and LSV services in SBC's local exchange tariff and in
11 SBC's IntraLATA Long Distance Tariff different in any way?

12 A. Interestingly, the services differ very little. When the interrupt or
13 verification requested crosses exchange boundaries, but not LATA boundaries, the same
14 SBC operator can process the request, and the customer is merely billed according to a
15 different tariff. From the customer's perspective, local and intraLATA interexchange
16 LSV and BLI appear no different. Only when the BLI and/or LSV requests cross LATA
17 boundaries does the customer experience differ. Since SBC operators do not process
18 interLATA requests, they must hand the customer off to an interexchange carrier
19 operator. The LSV and BLI services in SBC's PSC MO No. 24 and PSC MO No. 26 are
20 quite similar indeed.

21 Q. How are BLI and/or LSV requests handled if SBC does not serve the
22 targeted telephone line?

Rebuttal Testimony of
Bill Peters

1 A. In such situations an additional operator needs to be contacted. The SBC
2 operator contacts the operator assigned to the targeted telephone line. SBC refers to this
3 operator as an inward operator. The inward operator acts as an intermediary and
4 performs the BLI and/or LSV, then relays the information to the SBC operator. An
5 intraLATA interexchange BLI or LSV would be charged under SBC's IntraLATA Long
6 Distance Tariff tariff, PSC MO No. 26.

7 Q. What happens if the caller requests BLI and/or LSV and the target
8 telephone line is outside the caller's LATA?

9 A. If the target telephone line is in a different LATA, an interexchange
10 operator must be used. The SBC operator will inform the caller that SBC cannot process
11 the request. The SBC operator will then ask the caller for an interexchange carrier
12 preference and will forward the caller to the requested interexchange carrier operator. If
13 the caller has no immediate preference, the operator will provide a randomly generated
14 choice of interexchange carriers. SBC does not bill the caller in this situation.

15 Q. Do SBC operators inform the caller of LSV and/or BLI rates when those
16 services are requested?

17 A. No, the SBC operator does not inform the caller of LSV and/or BLI rates
18 when those services are requested. However, if the caller requests the rates for BLI
19 and/or LSV, the SBC operator has access to the rates and will provide those requested
20 rates to the caller.

21 Q. Where are SBC Missouri operators located?

Rebuttal Testimony of
Bill Peters

1 A. Operators in Arkansas handle BLI and LSV requests made by callers in
2 the eastern portion of Missouri, while operators located in Oklahoma handle requests
3 made by callers in the western portion of Missouri.

4 **Rates**

5 Q. What are the current and proposed rates for BLI and LSV?

6 A. SBC is proposing to raise the local BLI rate from \$2.31 to \$2.49. SBC is
7 also proposing to raise the local LSV rate from \$1.50 to \$1.62. The intraLATA BLI and
8 LSV rates are currently the same rate levels as the proposed rates for the local version of
9 BLI and LSV.

10 Q. What are the historical rates for BLI and LSV?

11 A. In 1986, SBC's price for BLI was \$1.85 and SBC's price for LSV was
12 \$1.20. A more extensive price history is attached to my testimony as Schedule 1. This
13 schedule includes a pricing history of the Missouri rates for CenturyTel, SBC and Sprint.
14 The schedule also includes a shorter four-year rate history for other SBC states.

15 I should also note that from 1986 to 2000 SBC's rates for BLI and LSV were not
16 changed. Recently, however, SBC has increased its rates for these services by
17 approximately 8% in 2000, 2001, and 2002. Again in 2003, SBC has proposed to
18 increase its rates for BLI and LSV by approximately 8%.

19 Q. What is the relevant issue concerning these proposed rates?

20 A. The relevant issue is whether the proposed rate levels are reasonable or
21 unreasonable.

22 Q. What factors determine whether the proposed rates are reasonable or
23 unreasonable?

Rebuttal Testimony of
Bill Peters

1 A. Demonstrating the reasonableness of rates can be difficult. As I will point
2 out in my testimony, two different persons can analyze the same information and reach
3 disparate conclusions. Moreover, there is not just one factor to analyze; rather, several
4 factors should be considered in determining whether the proposed rates are reasonable.
5 Some of the considerations I plan to explore include:

- 6 • Rate comparisons with other companies.
- 7 • Cost of providing the services.
- 8 • Revenues received from the services.
- 9 • Demand for the services.
- 10 • Competitiveness of the services.
- 11 • Critical nature of the services.

12 **Rate Comparisons**

13 Q. What do other companies charge for LSV and BLI?

14 A. The prices for these services vary widely by company and state. The
15 highest rates in Missouri for BLI and LSV are \$19.98 and \$9.99 and the lowest rates for
16 BLI and LSV are \$0.95 and \$0.45, respectively. A survey of rates is listed in Schedule 2.

17 Q. How might this rate comparison suggest SBC's proposed rates are
18 reasonable?

19 A. Some competitive companies have higher rates than SBC's proposed rates.
20 Likewise, SBC's rates for these services in other states are also higher than SBC's
21 proposed rates. SBC's proposed rates are clearly not the highest across these companies.
22 Such comparisons may suggest the proposed rates are reasonable.

Rebuttal Testimony of
Bill Peters

Q. Please discuss how some competitive carrier rates for BLI and LSV compare to SBC's proposed rates.

A. AT&T and CenturyTel Long Distance, Inc. both charge \$19.99 for Busy Line Interrupt and \$9.99 for Line Status Verification¹. These interexchange carrier rates make SBC's proposed rates a bargain in comparison. Sprint Communications Company, L.P. (Sprint) and Bell Atlantic Communications, Inc. (Bell Atlantic) also charge more than SBC's proposed rates. Sprint's rates are more than twice Bell Atlantic's rates, yet Bell Atlantic's rates are still above SBC's proposed rates. MCI currently charges less than SBC for these services. These rate comparisons with interexchange carriers (IXC's) are identified below:

SBC v. IXC

Company	Type	BLI	LSV	LSV w/ BLI*	State
AT&T	IXC	\$ 19.98	\$ 9.99	\$ 19.98	MO
CenturyTel Long Distance, Inc.	IXC	\$ 19.98	\$ 9.99	\$ 19.98	MO
Sprint Communications Company, LP	IXC	\$ 6.50	\$ 6.50	\$ 13.00	MO
Bell Atlantic Communications, Inc.	IXC	\$ 2.75	\$ 2.25	\$ 5.00	MO
SBC MO	ILEC	\$ 2.49	\$ 1.62	\$ 4.11	MO
MCI/WCOM	IXC	\$ 1.85	\$ 1.20	\$ 1.85	MO

*See Footnote 1 on page 8.

Rate comparisons with other competitive local exchange companies (CLECs) reveal mixed results. Among CLECs offering the services, only Z-Tel has higher rates for BLI and LSV at \$3.00 and \$2.23 respectively. These rate comparisons with CLECs are identified below:

¹ Some companies do not charge for LSV if a customer orders BLI. From AT&T Communications of the Southwest, Inc., P.S.C. Mo. No. 15 (Message Telecommunications Service Tariff), Section 1, 7th Revised Sheet 8, "A Busy Line Verification must be made prior to a Busy Line Interruption. Busy Line Verification charges will not be incurred on calls in which a Busy Line Interruption charge is imposed."

SBC v. CLECs						
Company	Company Type	BLI	LSV	LSV+BLI*	State	
Z-Tel Communications, Inc.	CLEC	\$3.00	\$2.23	\$ 5.23	MO	
SBC MO	ILEC	\$2.31	\$1.50	\$ 3.81	MO	
Ionex Communications, Inc.	CLEC	\$2.31	\$1.50	\$ 3.81	MO	
ExOp of Missouri, inc. d/b/a Unite	CLEC	\$2.15	\$1.40	\$ 3.55	MO	
ICG Telecom Group, Inc.	CLEC	\$2.14	\$1.39	\$ 3.53	MO	
Allegiance Telecom of Missouri, Inc. (MO)	CLEC	\$2.14	\$1.39	\$ 3.53	MO	
Sage	CLEC	\$2.00	\$1.50	\$ 3.50	MO	
Alltel	CLEC	\$1.85	\$1.20	\$ 3.05	MO	
Nuvox Communications of Missouri, Inc.	CLEC	\$1.85	\$1.20	\$ 3.05	MO	
Pacific Bell (CA)	CLEC	\$1.50	\$1.50	\$ 3.00	CA	
TCG St. Louis	CLEC	\$1.50	\$1.50	\$ 3.00	MO	
TCG KC	CLEC	\$1.50	\$1.50	\$ 3.00	MO	
Mark Twain Communications Company	CLEC	\$1.50	\$1.50	\$ 3.00	MO	
McLeod USA Telecommunications Services, Inc.	CLEC	\$1.85	\$1.20	\$ 1.85	MO	
Global Crossing Local Services, Inc.	CLEC	\$1.85	\$1.20	\$ 1.85	MO	
Chariton Valley Telecom Corporation	CLEC	\$0.95	\$0.50	\$ 1.45	MO	
Green Hills Telecommunications Services	CLEC	\$0.75	\$0.40	\$ 1.15	MO	

*See Footnote 1 on page 8.

Q. How relevant are the rate comparisons with competitive companies?

A. The answer depends on how competitive you view BLI and LSV services to be. Although I will discuss it later in my testimony, SBC customers do have the ability to access an interexchange carrier for both local and interexchange versions of BLI and LSV. For example, an SBC customer presubscribed to MCI can dial “double zero” and reach an MCI operator rather than an SBC operator. In this respect, an SBC customer could have access to less expensive versions of BLI and LSV than SBC’s current charges.

Whether such alternative dialing provides sufficient competitive alternatives depends on one’s point of view. In Case No. TO-2001-467, the Commission concluded SBC’s operator services were so closely tied to the provisioning of basic local service

Rebuttal Testimony of
Bill Peters

that effective competition does not exist for local operator services unless effective competition exists for basic local service.

Q. Please discuss rate comparisons with what SBC charges for BLI and LSV in other states.

A. Comparing SBC's proposed BLI and LSV rates to those in other states, SBC proposed rates fall more in the middle to lower range of rates. In Arkansas, where BLI and LSV are essentially deregulated under Arkansas' Price Cap scheme, SBC charges \$7.00 for BLI and \$6.00 for LSV. These rate comparisons between states are identified below:

**SBC MO v.
Other States**

Company	Company Type	BLI	LSV	LSV+BLI*	State
SBC AR	ILEC	\$ 7.00	\$ 6.00	\$ 13.00	AR
SBC WI	ILEC	\$ 7.00	\$ 5.00	\$ 12.00	WI
SBC MI	ILEC	\$ 6.00	\$ 3.00	\$ 9.00	MI
SBC IN	ILEC	\$ 6.00	\$ 3.00	\$ 9.00	IN
SBC IL	ILEC	\$ 7.00	\$ 2.00	\$ 9.00	IL
SBC TX	ILEC	\$ 4.95	\$ 3.95	\$ 8.90	TX
SBC KS	ILEC	\$ 4.50	\$ 3.50	\$ 8.00	KS
SBC OK	ILEC	\$ 2.95	\$ 1.95	\$ 4.90	OK
SBC MO	ILEC	\$ 2.49	\$ 1.62	\$ 4.11	MO
SBC OH	ILEC	\$ 2.00	\$ 1.75	\$ 3.75	OH
Pacific Bell (CA)	CLEC	\$ 1.50	\$ 1.50	\$ 3.00	CA
SBC CA	ILEC	\$ 1.25	\$ 1.20	\$ 2.45	CA
SBC CT	ILEC	\$ 1.00	\$ 1.00	\$ 2.00	CT
SBC NV	ILEC	\$ 1.00	\$ 0.50	\$ 1.50	NV

*See Footnote 1 on page 8.

Q. How relevant are rate comparisons with other states?

A. Although these services do not represent a situation where a potential LSV and/or BLI customer could shop for BLI and/or LSV across multiple states, it is helpful to understand the range of current prices for these services. SBC's proposed rates are not near the higher end of the studied continuum and appear to fall within a range of

Rebuttal Testimony of
Bill Peters

reasonableness. If the rates were closer to being the highest prices for these services, I would be more concerned.

Q. Please explain how the rate comparison information may suggest SBC's proposed rates for BLI and LSV are unreasonable.

A. SBC's proposed rates for LSV and BLI are currently the highest of any Missouri incumbent local telephone company (ILEC). CenturyTel and Sprint, also Price Cap regulated companies, have BLI and LSV rates that are less than half of the rates SBC is proposing. Looking at these companies' rates in isolation, SBC's proposed rates might be considered unreasonable. Rate comparisons between Missouri ILECs are identified below:

Company	Type	BLI	LSV	LSV+BLI*	State
SBC MO	ILEC	\$2.49	\$1.62	\$ 4.11	MO
Iowa Telecommunications Services, Inc.	ILEC	\$2.15	\$1.53	\$ 3.68	MO
Rock Port Telephone Company	ILEC	\$1.50	\$1.50	\$ 3.00	MO
Peace Valley Telephone Co., Inc.	ILEC	\$1.50	\$1.00	\$ 2.50	MO
Northeast Missouri Rural Telephone Company	ILEC	\$1.50	\$0.95	\$ 2.45	MO
Alltel	ILEC	\$1.25	\$1.00	\$ 2.25	MO
Fidelity Telephone Company	ILEC	\$1.25	\$1.00	\$ 2.25	MO
McDonald County Telephone Company	ILEC	\$1.00	\$1.00	\$ 2.00	MO
Kingdom Telephone Company	ILEC	\$1.00	\$0.75	\$ 1.75	MO
CenturyTel	ILEC	\$1.10	\$0.58	\$ 1.68	MO
Spectra	ILEC	\$0.95	\$0.50	\$ 1.45	MO
Cass County Telephone	ILEC	\$0.95	\$0.50	\$ 1.45	MO
BPS	ILEC	\$0.95	\$0.50	\$ 1.45	MO
Sprint	ILEC	\$0.95	\$0.45	\$ 1.40	MO
Green Hills Telephone Company	ILEC	\$0.75	\$0.40	\$ 1.15	MO
Citizens Telephone Company	ILEC	\$1.00	\$0.75	\$ 1.00	MO

*See Footnote 1 on page 8.

Q. Do you have any additional comments regarding the rates charged by ILECs?

A. Under Price Cap Regulation, SBC has revised rates for many non-basic services by up to eight percent per year. Many Missouri ILECs, subject to Rate of Return Regulation, have maintained the same BLI and LSV rates for a long time. Rate of Return

Rebuttal Testimony of
Bill Peters

1 Regulated companies generally cannot raise any rates outside the context of a rate case.
2 In addition, very few ILECs have filed cases to increase their revenues over the past 15-
3 20 years.

4 Also, some ILECs do not technically provide BLI and LSV services, and
5 therefore, do not maintain tariffed rates for the services. Customers of these ILECs still
6 may have access to BLI and LSV services through an interexchange carrier, because
7 “zero minus” calls are routed to the customer’s presubscribed interexchange carrier.

8 Q. What conclusions can be drawn from these rate comparisons?

9 A. Conclusions will depend on how one looks at this data. Clearly, some
10 companies charge significantly more for these services than SBC’s proposed rates, while
11 other companies charge less. Some comparisons may suggest the proposed rates are
12 reasonable while other comparisons might suggest the rates are unreasonable.

13 Since SBC customers, presubscribed to an interexchange carrier like AT&T, do
14 have the ability to access an interexchange carrier for both local and interexchange
15 versions of BLI and LSV, this ability to choose might suggest SBC’s proposed rates are
16 reasonable. However, the Commission has found effective competition for these services
17 in very few of SBC’s exchanges.

18 SBC’s proposed rates also seem reasonable when comparing across states, since
19 they are near the lower end of that continuum. In contrast, when compared with the rates
20 of other Missouri ILECs, SBC’s proposed rates, nearly twice the rates of the nearest
21 company, may be considered unreasonable.

Costs

Q. What role, if any, should costs play in determining the reasonableness of rates for a particular service?

A. In general, a service's rate should, at a minimum, recover the costs of providing the service. Clearly, if SBC's proposed rates are below the company's costs of providing BLI and LSV, it could be argued the proposed rates are unreasonably low. On the other hand, if SBC's current rates already recover the cost of providing BLI and LSV then the threshold of reasonableness is not quite as clear.

Q. What are SBC's costs of providing BLI and LSV?

A. According to SBC's long run incremental cost study (LRIC), the LRIC cost of providing local BLI is ** HC ** and the LRIC cost of intraLATA BLI is ** HC **. The LRIC cost of providing local LSV is ** HC **, and the LRIC cost of intraLATA LSV is ** HC **.

Q. Do you have any comments about SBC's cost study for BLI and LSV services?

A. Yes. The cost study was conducted in 1996, and can generally be divided into a labor component and an equipment component. The difference between the cost of providing local and intraLATA versions of BLI and LSV is solely due to network holding times; an operator must wait for telephone equipment to set up a LSV and/or BLI. In an attempt to update the cost study, Staff queried SBC for updated labor rates. SBC estimate labor costs have increased by 15% since 1996. Inserting updated labor rates into the cost study reveals approximate costs for local LSV and BLI of ** HC ** and ** HC ** respectively.

NP

Rebuttal Testimony of
Bill Peters

1 Q. SBC provides BLI and LSV on a wholesale basis to other companies.
2 How do these costs compare to wholesale companies' costs of providing BLI and/or
3 LSV?

4 A. Wholesale carriers, CLECs and ILECs, compensate SBC Missouri for
5 Wholesale Operator services via negotiated agreements. The M2A is an agreement
6 available to all carriers in Missouri. This rate could be viewed as a non-SBC company's
7 cost of providing BLI and LSV. If BLI and LSV are provided pursuant to the M2A, SBC
8 charges the company \$.02 per second. Assuming the average length of time to handle a
9 BLI or LSV request, this rate translates into an average cost of ** HC ** per BLI
10 request and ** HC ** per LSV request for local requests: and ** HC ** per BLI
11 request and ** HC ** per LSV request for intraLATA long distance requests. Highly
12 Confidential Schedule 3 lists the Missouri carriers that purchase operator services,
13 including LSV and BLI, from SBC Missouri.

14 Q. What conclusions might be drawn from SBC's cost studies in analyzing
15 the reasonableness of SBC's proposed rates?

16 A. The prices SBC is proposing for these services are greater than the LRIC
17 cost in SBC's LRIC cost study. How much SBC's proposed rates should exceed cost is
18 an issue not clearly defined by this Commission. SBC witness, Mr. Unruh, points out
19 that the Commission's decision in Case No. 18,309 provides some pricing guidelines.

20 Q. Does Case No. 18,309 provides much, if any, guidance in determining the
21 reasonableness of SBC's proposed rates for BLI and LSV?

22 A. Unfortunately no, but it does help us understand why rates are where they
23 are today. Staff Witness Chris Thomas explores this issue further in his Rebuttal

NP

Rebuttal Testimony of
Bill Peters

1 Testimony. In Case No. 18,309, the Commission set forth a pricing philosophy that
2 encouraged certain categories of services to be priced at high levels in order to support
3 basic local service. In other words, prices for basic local service were kept low by
4 pricing other services at high levels.

5 Services would be placed into one of three categories, and different pricing
6 philosophies were applied to each category. Category one services are services subject to
7 substantial competitive pressure. The Commission's order in Case No. 18,309 specifies
8 that category one services be priced to generate the largest practical level of contribution
9 to the firm's revenue. In my opinion, BLI and LSV do not clearly fall into category one
10 services for all of SBC exchanges as Mr. Unruh suggests. Category two services are
11 basic telephone services. Category three makes up the balance of all services provided
12 by the company. Category three prices are adjusted upward based on social and
13 economic factors. Case No. 18,309 did not specifically assign a category for BLI and
14 LSV service.

15 The Commission's decision in Case No. 18,309 describes how directory
16 assistance might be considered a category three service and therefore priced in a manner
17 to account for social and economic factors. BLI and LSV might be considered similar to
18 directory assistance service. Although the Commission's decision in Case No. 18,309
19 does not provide clear instruction on how to categorize services, I would classify BLI and
20 LSV as category three services where prices would be adjusted based on social and
21 economic factors.

22 Unfortunately, Case No. 18,309 does not provide much, if any, guidance on
23 adjusting prices for social or economic factors. An interpretation might be that the

Rebuttal Testimony of
Bill Peters

1 reasonableness or alternatively, the unreasonableness, of prices for category three
2 services is left to the discretion of the Commission.

3 Q. What is the relationship between SBC's cost and SBC's proposed rates?

4 A. The prices SBC is proposing for these services are greater than the LRIC
5 cost in SBC's LRIC cost study. Given the rates' historical context, namely the price-
6 setting philosophy set forth in Case No. 18,309, the difference between service cost and
7 rate may be considered reasonable. Another reasonable approach might discount the
8 Commission's previous pricing policy. Because of the new competitive landscape, the
9 Commission might not want to discourage competition by holding on to monopoly
10 pricing philosophies.

11 Q. Ultimately, can cost and information regarding historical pricing
12 philosophies give the Commission any strict guidance regarding the reasonableness of the
13 instant rates?

14 A. Unfortunately, no significant conclusions can be drawn regarding the
15 reasonableness of the proposed rates based on analyzing the cost of providing these
16 services or and information regarding the Missouri Commission's historical pricing
17 philosophies. However, this information helps us understand that the rates we are
18 looking at today may have historically been set at levels higher than cost. Along with
19 other factors, this historical pricing philosophy is important while evaluating the
20 reasonableness of current rates.

21 **Revenue**

22 Q. How do BLI and LSV affect SBC's revenue?

Rebuttal Testimony of
Bill Peters

1 A. As a result of data requests, Staff was given SBC revenue information for
2 LSV and BLI in both SBC's PSC MO No. 24 and 26. According to SBC's data, the
3 combined revenue for LSV and BLI in both tariffs was ** HC ** in January 2001,
4 and ** HC ** in June 2003. The data reflects declining revenues for these services
5 which is consistent with declining billed quantities reported later in my testimony.
6 Revenue data is listed in Highly Confidential Schedule 4.

7 Q. To what extent should revenue be considered when determining the
8 reasonableness of rates?

9 A. A decreasing revenue stream for a service does not by itself justify an
10 increase in the rates for said service. However, increasing rates is one possible way to
11 increase revenues.

12 **Demand**

13 Q. What is the demand for these services?

14 A. SBC provided Staff with 30 months of data detailing both SBC's local and
15 intraLATA interexchange combined billed quantities of Line Status Verification and
16 Busy Line Interrupt. That information is attached to my testimony as Highly
17 Confidential Schedule 5.

18 These numbers indicate billed quantities are decreasing for both of these services.
19 In January 2001, the combined local and intraLATA interexchange (PSC MO Nos. 24
20 and 26) number of BLI sold was ** HC **. In June 2003, the combined local and
21 intraLATA interexchange (PSC MO Nos. 24 and 26) number of BLI sold was
22 ** HC **.

NP

Rebuttal Testimony of
Bill Peters

1 In January 2001, the combined local and IXC (PSC MO Nos. 24 and 26) number
2 of LSV sold was ** HC **. In June 2003, the combined local and intraLATA
3 interexchange (PSC MO Nos. 24 and 26) number of LSV sold was ** HC **.

4 The decrease in billed quantities for these services could be indicative of a general
5 decrease in demand due to any number of reasons, including lack of awareness, increase
6 in wireless phone use, and response to price increases.

7 Q. Would these services ever be used together?

8 A. The two services seem to go hand in hand. Namely, it seems logical to
9 request a Line Status Verify before requesting an interrupt of that line. The services,
10 however, do not need to be ordered together, and the available data does not indicate the
11 frequency of their complementary use. BLI quantities exceed LSV quantities 28 of the
12 30 months studied. In fact, over these 30 months surveyed, BLI was ordered
13 ** HC ** more times than LSV. To say it another way, more than 13% of all BLI
14 ordered cannot be matched with a corresponding order of LSV. These numbers seem to
15 indicate that, even if the services could be used together, many customers are skipping
16 Line Status Verification and requesting Busy Line Interrupt without first verifying the
17 status of the line.

18 Some tariffs of other telephone companies seem to imply BLI and LSV are
19 complements. For example, Global Crossing offers “Busy Line Verification” and “Busy
20 Line Verification w/ Interrupt”. This is interesting because, rather than completely
21 separating BLI and LSV, Global Crossing combines line verification with line interrupt
22 service. This pairing demonstrates that Global Crossing considers LSV and BLI to be
23 complementary.

NP

Competitiveness of BLI and LSV

Q. Does effective competition exist for BLI and LSV?

A. Based on the Commission's Report and Order, issued December 27, 2001 for Case No. TO-2001-467, *In The Matter of the Investigation of the State of Competition in the Exchanges of Southwestern Bell Telephone Company*, the Commission concluded,

"...Southwestern Bell's busy line verification [LSV] and busy line verification interrupt [BLI] services face effective competition and are hereby classified as competitive pursuant to Section 392.245.5 for business customers in only the Kansas City and St. Louis exchanges and for residential customers in only the St. Charles and Harvester exchanges. It also follows that because Southwestern Bell's business and residential services have not been shown to face effective competition in its other exchanges, that its busy line verification [LSV] and busy line verification interrupt [BLI] services do not face effective competition in its other exchanges either."

In other words, BLI and LSV only face effective competition in exchanges where effective competition exists for basic local exchange service. The SBC exchanges the Commission has concluded to face effective competition for residential basic local exchange service cover a very limited area, the Harvester and St. Charles exchanges.

The Commission's decision did not appear to distinguish between local and intraLATA BLI and LSV services, even though SBC's other "zero minus" and "zero plus" dialed operator services were found to be competitive. "Zero minus" dialed operator service calls are normally routed to the operator service provider designated by the customer's local telephone company. There are some limited exceptions to the routing of "zero minus" calls. Some small local telephone companies route all "zero minus" dialed calls the caller's presubscribed carrier.

Q. Are there any substitutes for local LSV and/or BLI?

Rebuttal Testimony of
Bill Peters

1 A. The answer to that question might depend on your point of view. The
2 most obvious substitutes for SBC's local LSV and/or BLI are those same services offered
3 by an interexchange provider such as AT&T. Customers can reach their presubscribed
4 interexchange carrier's operator by dialing "double zero". These interexchange carrier
5 operators can generally provide BLI and LSV. Whether "double zero" dialing is viewed
6 the same as "zero" dialing is debatable. Other ways to get in touch with a party whose
7 telephone line is busy may include: email, a second phone (landline or wireless),
8 phoning a neighbor and asking for a favor, physically traveling to the target party's
9 location/home/business, or using a pager.

10 Q. What consideration should be given to competitive choice when
11 evaluating the reasonableness of particular rates?

12 A. If there is an easily obtainable, comparably priced alternative to a good or
13 service, less concern should exist regarding the reasonableness of any individual prices.
14 Theoretically, when there is choice, consumers have the opportunity to shop around for
15 price or quality considerations to best meet their needs. For example, if Company A has
16 priced a service unreasonably high, competitors should be able to exploit that excessive
17 price and charge a lower price, thereby acquiring price sensitive customers of the
18 company employing an unreasonable pricing strategy. In order to continue selling,
19 Company A would be forced to lower its prices to a more reasonable level. Given these
20 conditions, the presence of competitive choice should help allay concerns about
21 unreasonable rates.

1 **Critical Service Consideration**

2 Q. What role, if any, should the critical nature of BLI and LSI services play
3 in determining the reasonableness of rates?

4 A. Generally, critical services, or services used in emergency situations,
5 might warrant special pricing considerations, likely minimizing prices. For example, BLI
6 might be used in emergency situations where it is extremely important to interrupt an
7 ongoing phone conversation.

8 In fact, some other telephone companies' tariffs imply the emergency nature of
9 BLI and LSV services. For example, the tariffed description for Green Hills
10 Telecommunications Services'(a CLEC) Busy Interrupt service states, "...the operator
11 will intercept an existing call on the called line if the calling party indicates an emergency
12 and requests interruption." Of course, the inclusion of this language in Green Hills' tariff
13 has no effect on SBC's services and does not limit SBC's BLI and LSV to emergency
14 situations. However, it does provide some insight into what sorts of situations might
15 cause a customer to request these services. In meetings with SBC personnel, Staff has
16 asked if these services are generally used in emergency situation. Unfortunately, SBC
17 was not aware of any evidence that would demonstrate how BLI and LSI services are
18 used.

19 **Other Considerations**

20 Q. Are you aware of any statute that could give any guidance regarding the
21 reasonableness of SBC's proposed rates for BLI and LSV?

22 A. It is of interest to note, a Missouri statute does explicitly limit Alternative
23 Operator Service providers' (AOS) intrastate operator service rates.

Rebuttal Testimony of
Bill Peters

RSMo 392.515(1) Intrastate operator services provided by alternative operator service companies shall be provided pursuant to rates approved by the commission under the provisions of subsection 2 of section 392.220, provided that proposed rates shall be presumed reasonable by the commission and approved if they are no higher than operator services rates of certificated interexchange telecommunications companies which are not alternative operator services companies; (emphasis added)

If the Commission were to use the benchmark set forth in the preceding statute, operator service rates become unreasonable only when they exceed the highest certified interexchange carrier operator service rates. Referencing to Schedule 2, both AT&T and CenturyTel Long Distance charge \$19.98 for Busy Line Interrupt with Line Status Verification. SBC's proposed rates for BLI and LSV (together the charge is \$4.11) are clearly below this threshold.

Staff realizes this statute is not directly related to the local exchange operator services at issue in this proceeding; however, it does provide an indication of what could be anticipated in a competitive environment for such services and provides another factor for the Commission's consideration in determining reasonableness of SBC's proposed rates for BLI and LSV.

Summary

Q. Please summarize the factors you have considered in this testimony.

A. *Rate Comparisons* - The rates for BLI and LSV vary widely throughout Missouri and across states. Some comparisons may suggest the proposed rates are reasonable while other comparisons might suggest the rates are unreasonable. SBC's proposed rates seem reasonable when comparing across states, since they are near the lower end of that continuum. In contrast, when compared with the rates of other

Rebuttal Testimony of
Bill Peters

1 Missouri ILECs, SBC's proposed rates, nearly twice the rates of the nearest company,
2 may be considered unreasonable.

3 *Competitive Alternatives* - SBC customers, presubscribed to an interexchange
4 carrier like AT&T, have the ability to access an interexchange carrier for both local and
5 interexchange versions of BLI and LSV. This ability to choose might suggest SBC's
6 proposed rates are reasonable. However, the Commission has found effective
7 competition for these services in very few of SBC's exchanges.

8 *Costs* - The prices SBC is proposing for BLI and LSV are greater than the LRIC
9 cost in SBC's LRIC cost study, but how much SBC's proposed rates should exceed cost
10 is an issue not clearly defined by this Commission. Information regarding the Missouri
11 Commission's historical pricing philosophies, specifically Case No. 18,309, helps us
12 understand that the rates we are looking at today may have historically been set at levels
13 higher than cost. Unfortunately, Case No. 18,309 does not provide much, if any,
14 guidance categorizing BLI and LSV services or adjusting their rates for social or
15 economic factors. However, given the rates' historical context, namely the price-setting
16 philosophy set forth in Case No. 18,309, the difference between service cost and rate may
17 be considered reasonable.

18 *Revenues* - BLI and LSV revenues are recently declining. A decreasing revenue
19 stream for a service does not by itself justify an increase in the rates for said service.
20 However, increasing rates is one possible way to increase revenues.

21 *Other Considerations* - Section 392.515(1) is not directly related to the local
22 exchange operator services at issue in this proceeding; however, it does provide an
23 indication of what could be anticipated in a competitive environment for such services

Rebuttal Testimony of
Bill Peters

1 and provides another factor for the Commission's consideration in determining
2 reasonableness of SBC's proposed rates for BLI and LSV.

3 Q. Are the proposed rates for LSV and BLI reasonable?

4 A. It is difficult to make this determination. Depending upon where one
5 wants to draw the line of reasonableness, the final judgment could turn out either way.
6 My testimony is intended to simply provide some factors for the Commission's
7 consideration in determining the reasonableness of the proposed rates.

8 Q. Does this conclude your testimony?

9 A. Yes it does.