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May 2, 2002

Secretary of PSC
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

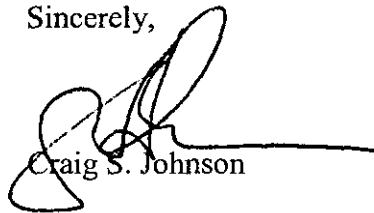
**Re: Joint Application of Northeast Missouri Rural Telephone Company and
Modern Telecommunications Company
Case No. TM-2002-465**

Dear Secretary Roberts:

Enclosed please find for filing an original and eight (8) copies of the Response of
Northeast Rural and Modern Telecommunications to AT&T's April 29 Comments.

Thank you for seeing this filed.

Sincerely,



Craig S. Johnson

CSJ:tr

Enc.

cc: Ray Ford/Gary Godfrey
Rebecca D. DeCook
J. Steve Weber
Dan Joyce
Michael Dandino
Leo Bub

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

**In the Matter of the Joint Application of)
Northeast Missouri Rural Telephone)
Company and Modern Telecommuni-)
cations Company for Approval to Merge) Case No. TM-2002-465
Modern Telecommunications Company)
and Northeast Missouri Rural Telephone)
Company.)**

**Response of Northeast Missouri Rural and
Modern Telecommunications to
Comments of AT&T Communications of the Southwest**

Northeast Missouri Rural Telephone Company (Northeast) and Modern Telecommunications Company (Modern) submit the following Response to the April 29, 2002 Comments of AT&T Communications of the Southwest (AT&T):

1. The April 9, 2002 Order Directing Notice in this docket required applications to intervene to be filed by April 29, 2002. AT&T has not applied to intervene as a party in this proceeding. AT&T thereby lacks standing to suggest any issues or action be taken by the Commission, and such suggestions should be denied.
2. The Comments of AT&T ask the Commission to utilize this merger approval proceeding to address contended untoward disparities in the local service rates, interstate switched access rates, intrastate switched access rates, and dial-up internet access service rates, and a rebalancing of such rates. AT&T also suggests consideration of implementation of a high cost universal service fund for Northeast and Modern.
3. Northeast and Modern are somewhat sympathetic to the need for a rebalancing of rates that cover the costs and reasonable contribution of those services consistent with the goal of sending the correct pricing signals to customers of Northeast

and Modern. Any such effort should be conducted with the goal of reasonable parity with similar regulated services provided by other LECs, and the goal of promoting universal service. However, Northeast and Modern suggest that this merger proceeding is not the appropriate docket in which to consider such generic, comprehensive, and far-reaching matters.

4. The sole question presented by this Joint Application for approval of the merger of Modern into Northeast is whether it would be detrimental to the public interest. The merger is of substantial benefit to current customers of Modern, who will become member/owners of Northeast should the merger be approved. The merger was not designed to benefit, or detriment, IXCs such as AT&T. The manner in which Modern and Northeast's access rates are proposed to be blended will not detriment any IXC. The wide range of issues and considerations presented by the Comments of AT&T are best addressed in other dockets currently pending before the Commission, not here.

5. Modern and Northeast agree with the concept that, a "minute should be a minute", and that pricing for usage utilizing the same facilities could be better reconciled. The difficulty with such a pristine concept is that it is inconsistent with telecommunications pricing policy as it has existed for decades. AT&T's suggestion is also beyond the jurisdiction of this Commission to effectuate. This Commission is not authorized to set or modify interstate access rates, which are set at their current levels as a result of interplay with federal universal service and end user subscriber line surcharges. The Federal Communications Commission regulates rates for traffic to internet service providers, which rates are inconsistent with the "minute is a minute" principle. This Commission does not have the jurisdiction to set pricing principles for these rates.

Northeast's dial-up internet service is not believed to be telecommunications services the Missouri Commission has the jurisdiction to change. The Federal Communications Commission also regulates local interconnection rates, which rates have pricing principles for CMRS traffic which are different from CLEC traffic. While this Commission has jurisdiction to consider interconnection agreements applying federal interconnection rate principles, it does not have jurisdiction to establish those rate principles.

6. At the intrastate level, access rates and local service rates are at their current levels as a function of rate of return regulation and universal service policies. Generally, local service rates through residual pricing are set as low as reasonably possible to encourage affordable and universal service and parity of local rates between rural and urban customers. Small company access rates have generally been set at levels completing the companies' authorized revenue requirement.

7. Northeast and Modern have generally opposed simply raising local service rates and reducing access rates. With no other revenue source, the effect would simply be to transfer the cost of business for IXCs such as AT&T to the local customers of Northeast and Modern. Such an overly simplistic action would be inconsistent with the principles of affordable and universal service, and with the principle of providing parity of local service value for customers of Modern and Northeast with those of local customers in urban exchanges.

8. The issues AT&T raises in its comments are generally the same issues that This Commission confronted and decided in the most recent Northeast rate case, TR-2001-344. Indeed, the pressure IXCs place on lowering access rates at the expense of

raising local rates is presented in every LEC rate case. This merger proceeding is not the appropriate proceeding in which to consider such generic rate design issues.

8. This Commission currently has pending two separate dockets, the Missouri Universal Service Fund docket, TO-98-329, and the investigation into the cost of access, TR-2001-65, which are the proper vehicles in which to consider such far-reaching and industry-wide issues as AT&T posits. The MoUSF has the potential to establish a revenue source to offset the access revenues of high cost companies such as Modern and Northeast, while at the same time preserving parity between rural and urban rates and value. The access investigation has the potential to identify and compare the costs of access between LECs. That should provide the Commission with better information as to the difference in access costs between large and small LECs. In turn such a cost comparison can provide the Commission with the information necessary to determine just and reasonable access rate levels for large and small LECs.

9. Modern, Northeast, and AT&T did communicate concerning the proposed access rate design of the merger prior to the filing of the Joint Application. AT&T correctly describes that Modern and Northeast have proposed a "revenue neutral" synthesis or averaging of each companies' existing access rates, based on usage amounts of both, into a single companies' access rates producing the same amount of overall access revenues. It is axiomatic that, as a result of the synthesis or averaging, the lower pre-existing rates will be raised, and the higher pre-existing rates will be lowered. A proposal as to what the proposed surviving entity's rates will be is a necessary component of the tariffs Northeast will file to implement the merger. Anytime two regulated LECs with different prices for the same categories of service are merged, as is proposed here,

this type of averaging of pre-existing rates is a necessity. Modern and Northeast do not believe that it is necessary, advisable or appropriate to address the generic, industry-wide issues AT&T posited by AT&T in its Comments in this docket.

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By 

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ATTORNEYS FOR Modern and Northeast

CERTIFICATE OF SERVICE

The undersigned does hereby certify that a true and accurate copy of the foregoing was mailed, via U.S. Mail, postage prepaid, this 2 day of May, 2002, to all attorneys of record in this proceeding.


Craig S. Johnson MO Bar No. 28179