

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

In the Matter of AT&T Communications of the)
Southwest Inc.'s Proposed Tariff to Establish a) **Case No. TT-2002-129**
Monthly Instate Connection Fee and Surcharge)

In the Matter of Sprint Communications Company,)
L.P.'s Proposed Tariff to Introduce an In-State) **Case No. TT-2002-1136**
Access Recovery Charge and Make Miscellaneous)
Text Changes)

In the Matter of MCI WorldCom Communications, Inc.'s)
Proposed Tariff to Add an In-State Access Recovery) **Case No. XT-2003-0047**
Charge and Make Miscellaneous Text Changes)

In the Matter of MCI WorldCom Communications,)
Inc.'s Proposed Tariff to Increase its Intrastate) **Case No. LT-2004-0616**
Connection Fee to Recover Access Costs Charged)
by Local Telephone Companies)

In Re the Matter of Teleconnect Long Distance)
Services and Systems Company, a MCI WorldCom) **Case No. XT-2004-0617**
Company d/b/a TelecomUSA's Proposed Tariff)
to Increase its Intrastate Connection Fee to Recover)
Access Costs Charged by Local Telephone Companies)

SURREBUTTAL TESTIMONY OF JAMES A. APPLEBY

ON BEHALF OF

SPRINT COMMUNICATIONS COMPANY L.P.

PUBLIC VERSION

July 27, 2005

1 **Q. Please state your name, occupation and business address.**

2 **A.** My name is James A. Appleby. I am employed as a Regulatory Affairs Manager
3 for Sprint/United Management Company representing the interests of Sprint
4 Communications Company L.P. My business address is 6450 Sprint Parkway
5 Overland Park, Kansas 66251.

6

7 **Q. Are you the person that filed direct testimony in this proceeding?**

8 **A.** Yes I am.

9

10 **Q. What is the purpose of your surrebuttal testimony?**

11 **A.** My surrebuttal testimony will respond to the rebuttal testimony filed by Barbara
12 Meisenheimer on behalf of the Office of the Public Counsel.

13

14 **Q. On page 7 Ms. Meisenheimer argues that the ISAR is unjust, unreasonable**
15 **and discriminatory because the ISAR is applied to a customer that has no**
16 **instate calling. Do you agree with her statement?**

17 **A.** No. Her statement is really saying that a specific customer in a specific month
18 may not make an instate toll call therefore in that instance it is unjust,
19 unreasonable and discriminatory to charge the Instate Access Recovery (ISAR)
20 fee since the IXC did not incur any instate access charges for that customer in that
21 month. Ms. Meisenheimer's argument mistakenly assumes the retail product is
22 created for each individual customer. It also assumes that if it is not designed for
23 that individual situation, the retail product structure is deficient. As I explained in

1 detail in my direct testimony, Sprint's consumer products are designed to meet the
2 toll needs of the average consumer over time. Inherent to that retail price
3 structure is the assumption that Sprint will incur average wholesale costs on the
4 average customer based on an average volume of calls by jurisdiction. With the
5 volume of customers in the mass market, it is simply not possible to create a retail
6 product offering tailored for each individual customer.

7

8 **Q. Can you give an example of another business that relies on an average retail**
9 **price structure?**

10 A. Yes. Let's discuss the business model of operating an all-you-can-eat salad bar
11 restaurant. To determine the retail price for eating at their salad bar, the business
12 owner considers the total cost of the food items to be stocked on the salad bar, the
13 overhead costs of the business and the overall market characteristics. The
14 business owner does not consider the eating habits of a specific customer nor does
15 the owner consider that some of the customers will not eat the higher cost food
16 items on the bar on a specific trip to the restaurant. The input costs are only
17 considered on average when establishing the retail price.

18

19 **Q. When an all-you-can-eat salad bar charges the same retail price for all**
20 **patrons, is the retail rate structure unjust, unreasonable and discriminatory?**

21 A. No. The customers may wish to be sure they are hungry before they visit the
22 restaurant so that they believe they receive their maximum value. But the retail
23 price structure is fair to all the consumers. Sometimes the customer gets a better

1 value one visit than on others but on average the patrons of the restaurant receive
2 equal value. Likewise, the application of the ISAR is fair to the average
3 consumer of Sprint's toll products.
4

5 **Q. Ms. Meisenheimer on page 7 argues that the usage of national average**
6 **minutes of use instead of Missouri specific average minutes of use fails to**
7 **accurately reflect Sprint's Missouri cost. Please comment on this statement.**

8 A. Sprint used the national average usage information because that information
9 provided a conservative view of the higher cost the Missouri intrastate switched
10 access rates incurred by Sprint to serve the Missouri market in comparison to the
11 national average intrastate access cost. To avoid any doubt about the validity of
12 our calculation of the cost differential, Sprint has updated Exhibit JAA#4 from
13 my direct testimony to show the Missouri specific usage in Surrebuttal Exhibit
14 JAA#1 attached. The Differential between the Average Intrastate Access Cost per
15 Residential Customer per Month has increased from *** **Begin Highly**
16 **Confidential** [REDACTED] **End Highly Confidential** ***. On this basis, the
17 \$1.99 ISAR recovers only *** **Begin Highly Confidential** [REDACTED] **End Highly**
18 **Confidential** *** of the average cost differential per month, per customer. The
19 majority of the higher Missouri access cost Sprint incurs is still recovered in other
20 parts of the retail service offerings such as the intrastate minute of use charge or
21 the recurring monthly charges.

1 **Q. Ms. Meisenheimer argues on page 11 of her rebuttal testimony that the**
2 **availability of competitors does not mean the ISAR is just and reasonable**
3 **and nondiscriminatory. What is she missing?**

4 A. Ms. Meisenheimer fails to recognize the numerous competitive offers the
5 consumers may choose if the service offerings of their current carriers are not
6 acceptable. It is extremely easy for customers to switch their long distance carrier
7 with little, if any, changing costs for the customer. The Commission's website
8 provides meaningful data on this point. At
9 www.psc.state.mo.us/consumer~infoamtion.asp the Commission provides
10 customers with rate and service comparison information on the toll service
11 offerings that are currently available. At the time of this testimony, more than 50
12 competing offers were documented by this Commission-linked resource.
13 Surrebuttal Exhibit JAA#2 provides a copy of this Commission-provided data.
14 These are not just certified carriers as implied by Ms. Meisenheimer but actual
15 competitive choices for the customers. It is also critical to note that this listing of
16 over 50 competitive choices does not include wireless or VoIP service offers that
17 simply add to the consumer's choices. If the customer has competitive choices,
18 the service provider does not have the power to impose unjust, unreasonable or
19 discriminatory terms on the customer's service because the customer can simply
20 choose another carrier. With a phone call or a click of the mouse, the customer
21 can end their business arrangement with their current provider.

1 **Q. Do you agree with Ms. Meisenheimer on page 14 that if both business and**
2 **residential customers incur the same higher access cost per minute in**
3 **Missouri than the national average, the toll provider must offer a retail**
4 **service offering to both customer classes that is structured exactly the same?**

5 A. No. Many industries structure their rates differently for business consumers than
6 for residential consumers even though many of the underlying costs are the same.
7 Sprint acknowledged in data responses that wholesale access costs per minute are
8 the same no matter the class of customer placing the call. But there is no reason to
9 think the toll provider is limited in the way they choose to recover those costs
10 from business customers and residential customers. The retail offer may recover
11 the above average access costs in the form of higher minute of use charges or in a
12 flat rate. Those rate design choices are left to each retail service provider in a
13 competitive market. As stated above the customers have many choices of
14 communications products in this highly competitive market. There is no market
15 failure that this Commission must correct.

16

17 **Q. On page 15 of rebuttal testimony, Ms. Meisenheimer attempts to characterize**
18 **the Missouri intrastate switched access rates as reasonable. Do you agree?**

19 A. No. Sprint has shown the average cost incurred for intrastate switched access in
20 Missouri per customer is significantly higher than the national average. It is
21 irrelevant which adjectives are used to describe this situation. There is a
22 substantial difference in the charges Sprint is obligated to pay as toll provider in
23 Missouri and must determine a way to recover from our toll customers.

1 Confirmation of the level of access rates for the LECs in Missouri is found on the
2 Missouri website at www.psc.state.mo.us/telecommunications~resources.asp.

3 Surrebuttal Exhibit JAA#3 provides a print out of this Commission provided data.

4

5 **Q. Does this conclude your surrebuttal testimony?**

6 **A. Yes.**