

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

In the Matter of the Tariff of Southwestern Bell)
Telephone, d/b/a AT&T Missouri, increasing local) **Case No. TT-2008-0062**
residential basic local service rates in certain)
exchanges designated as competitive pursuant to) **Tariff File No. JI-2008-0136**
Section 392.245.5, RSMo 2000 (as amended 2005))

OFFICE OF PUBLIC COUNSEL’S REPLY TO AT&T MISSOURI AND STAFF

Public Counsel is not asking the Public Service Commission to ignore the law. Public Counsel is asking the Commission to look at the facts and circumstances of these price increases and follow the law to protect the consumer. Public Counsel asks the Commission to cut through the fog and smoke screen of AT&T Missouri’s usual recitation of economic textbook tenets about competition, its repeated characterization of “artificially low” local basic service prices, and the perpetuation of the decades old myth (refuted in case testimony by two nationally known telecom costing witnesses, one sponsored by the PSC Staff) that falsely claims that Missouri local basic service is priced below cost and is subsidized by other telecom services.

AT&T and Staff justify these double-digit percentage rate increases based upon the absence of rate increases in the last 30 year history of regulation. Both AT&T and the Staff allege that the lack of rate increases have held basic local prices to artificially low prices as a matter of public policy. Public policy in telecommunications has the same fundamental goal in 1974, in 1996, and today: to provide quality telecommunication services, technical innovations and service options, at just, reasonable and affordable prices to all residents without discrimination based on rural, urban, suburban geography, the technology employed or the carrier providing the service.

These increases are the continuing reflection of behavior when consumer protections of price caps, annual price caps, and regulatory oversight are removed or diluted before competition has developed to counter balance the incumbent's strength and market dominance and to serve as an effective replacement for traditional rate regulation.

While claiming market pricing flexibility and market driven prices, AT&T justifies these significant increases based upon the cost driven prices of the old regulatory system. AT&T wants the freedom of deregulation, but wants to justify increases (that were not restrained by any real competition) by pointing to its increased costs in labor and healthcare and the lost opportunities to recoup all the lost revenues and cost of living adjustments since the mid-1970's. The argument "we haven't had a rate increase in 30 years." is not justification. Remember the claims that the acquisition of Ameritech, PacBell, PacNevada, the legacy AT&T, and BellSouth were going to result in cost saving synergies and more opportunities and better prices for customers through the consolidation of services? Technology allows more efficient use of networks and reduces costs; are those reduced costs reflected in these rate increases?

AT&T defines its market driven prices not by reference to current pricing by competitors in Missouri, but rather by its own monopoly prices over 30 years ago, under different circumstances and significantly different technology and without the presence of "competition". AT&T distorts the comparison even more. Market prices are not defined by the Missouri competitors' prices but *by AT&T's own prices in other states. AT&T defines the market prices and then seeks to keep up with that market" it created and maintains.*

The essence of Public Counsel's position is for a common sense approach that provides real relief, fairness and justice for the consumer and for the state. The hard, inescapable truth is that the present "light" price regulation of AT&T Missouri with the virtual unfettered discretion to raise prices under competitive classification was granted with assurances that price deregulation would not mean that local rates would consistently march upward each year.

After all, competition means lower prices and benefits the consumer. But price increases are not lower prices. Higher prices do not mean a benefit for the consumer.

Public Counsel asks the Commission to ask the ultimate question here: How is the customer benefited by these price increases in local basic service? The answer is clear-the benefit is only for AT&T. This is contrary to regulatory principle that "just and reasonable price" means just and reasonable to the company and the customer. Public Counsel doubts that the General Assembly wanted to abandon that principle and make the PSC unable to enforce that long standing consumer protection. For these reasons, the price increases should be rejected.

Respectfully submitted,

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I hereby certify that a copy of the foregoing was mailed, emailed and/or hand delivered this 5th day of September, 2007 to the following attorneys of record:

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