

Exhibit Number:
Issue(s): Rate Design
Witness: Anthony Clark
Sponsoring Party: MoPSC Staff
Case Number: TR-98-373

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SENECA AND GOODMAN TELEPHONE COMPANIES

TR-98-373

DIRECT TESTIMONY

OF

ANTHONY CLARK

FILED
AUG 10 1998
Missouri Public
Service Commission

Jefferson City, Missouri
August, 1998

DIRECT TESTIMONY
OF
ANTHONY CLARK
SENECA TELEPHONE COMPANY AND GOODMAN TELEPHONE COMPANY
TR-98-373

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5 Q. Please state your name and business address.

6 A. My name is Anthony Clark. My business address is 301 West High Street, Jefferson
7 City, Missouri 65101.

8 Q. By whom are you employed?

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

10 Q. How long have you been employed by the Commission?

11 A. I began my employment with the Commission in December 1996 as an economist in
12 the Rates and Tariffs section of the Telecommunications Department.

13 Q. What is your educational and professional background?

14 A. I have a Bachelor of Science degree in business administration with an emphasis in
15 economics and a Master of Arts degree in economics, both from the University of Missouri,
16 Columbia. Prior to beginning my employment with the Commission, I worked as a teaching assistant
17 in the Economics Department at the University of Missouri.

18 Q. What are your current responsibilities at the Commission?

19 A. My primary responsibilities are analyzing telecommunications cost models, tariffs and
20 interconnection agreements, and making recommendations to the Commission based on my analyses.
21 I also take part in special projects as assigned.

22 Q. Have you previously testified before the Commission?

23 A. Yes, in Case No. TT-97-524, *In The Matter Of Southwestern Bell Telephone*
24 *Company's Tariff To Revise P.S.C. Mo. NO. 40, Wireless Carrier Interconnection Service.*

25 Q. What is the purpose of your testimony in this case?

26 A. The purpose of my testimony is to provide the Telecommunications Department

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1 Staff's (Staff's) support of the rate design schedules detailed in the Stipulation and Agreement
2 signed by Staff, Seneca Telephone Company (Seneca) and Goodman Telephone Company
3 (Goodman). The Stipulation and Agreement was filed with the Commission in Staff's Motion to
4 Open Docket. The proposed rate design is based on the revenue requirement determination presented
5 by Staff witness David Winter.

6 Q. Please discuss the overall rate design for each company.

7 A. The overall rate design for Seneca provides for an annual reduction in revenues of
8 approximately \$446,564. The rate design for Goodman provides for an annual revenue reduction of
9 approximately \$269,508. In each case the revenue reduction would be achieved in part as a result of
10 the Company's commitment to invest a portion of the overearnings in digital carrier equipment, which
11 will eliminate all analog carrier equipment currently existing in both Companies' networks. The annual
12 revenue impact associated with this investment is approximately \$40,233 for Seneca and \$12,172 for
13 Goodman. The remaining revenue reductions are achieved in both cases by restructuring some of the
14 switched access rate elements, reducing some local rates, and expanding the local calling scope for
15 the customers of Seneca and Goodman.

16 A. Please discuss each element of the proposed rate design change in detail.

17 Q. The digital carrier investment is discussed in more detail in the testimony of Staff
18 witness Myron Couch, with the accompanying depreciation schedule addressed by Staff witness Paul
19 Adam. I'll begin by discussing the proposal to expand the local calling scope for each company.
20 Under the proposal, the customers of Seneca and Goodman would be able to call anywhere in another
21 Seneca or Goodman exchange without incurring toll charges. The revenue reduction would primarily
22 be a result of intrastate switched access and billing and collection revenue the companies would

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1 forego in offering the expanded scope. In the case of Goodman there are additional reductions
2 associated with a jurisdictional factor shift.

3 For Seneca, expanded local calling would cause approximately \$32,002 in switched
4 access revenue reduction and approximately \$2,312 in billing and collection revenue reduction. For
5 Goodman, expanding the local calling scope would result in approximately \$34,917 less in switched
6 access revenue and approximately \$3,715 less in billing and collection revenue. Additionally for
7 Goodman, the overearnings would be reduced by approximately \$42,642 due to the jurisdictional
8 factor shift.

9 Q. Can you briefly explain this jurisdictional factor shift?

10 A. Goodman is a cost company, meaning that costs are assigned based on interstate or
11 intrastate jurisdiction (see testimony of Staff witness David Winter). Shifting a portion of traffic from
12 toll to local causes a shift in the costs associated with that traffic. A three-month study was performed
13 tracking the traffic originating and terminating among the exchanges of Seneca and Goodman. For
14 Goodman, the average monthly traffic was multiplied by a factor of 2. This factor represents the
15 stimulated demand from offering customers local versus toll calling.

16 Q. Why is there no jurisdictional factor shift for Seneca?

17 A. Since Seneca is an average schedule company, meaning essentially that there is no
18 distinction between interstate and intrastate, there was no need to address a jurisdictional shift for that
19 company.

20 Q. How many exchanges would be included in the proposed expanded calling scope?

21 A. Four: Seneca, Tiff City, Goodman and Lanagan. Currently, Seneca's exchanges—
22 Seneca and Tiff City— comprise one local calling scope, while calls between Goodman's two

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exchanges are toll calls. Under the proposal, calls between any two of the four exchanges would be local calls.

Q. You mentioned that some local rates are reduced under the proposal. Can you discuss this further?

A. Yes. In each case, the touch-tone charge would be removed and the E911 rate would be reduced. Seneca currently has a touch-tone charge of \$1.00 per line for 2,062 residence customers and \$1.50 per line for 421 business customers. Removal of these charges would result in an annual revenue reduction of approximately \$32,322.

Goodman currently has a monthly touch-tone charge of \$1.25 per line for 1,398 business and residence customers. Removal of this charge would decrease Goodman's revenues by approximately \$20,970 annually. For both Goodman and Seneca, all customers would be provided with touch-tone free of charge.

For both Seneca and Goodman, the E911 transport rate would be reduced to a flat \$25 per month per trunk. Seneca currently provides four E911 trunks at an average monthly rate of \$120.55 per trunk. The E911 rate reduction would reduce Seneca's annual revenues by approximately \$4,562. Goodman currently provides two E911 trunks at an average monthly rate of \$111.85 per trunk. The E911 rate reduction would reduce Goodman's annual revenues by approximately \$2,084.

Q. Please describe the proposal for switched access rates.

A. For Seneca, approximately \$335,133 or 75% of the \$446,564 total earnings reduction is achieved by modifications to the company's switched access rate structure. For Goodman, approximately \$153,008 or 57% of the reduction occurs in switched access adjustments.

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1 Attachment A of the Stipulation and Agreement includes charts summarizing the
2 proposed access rate changes for Seneca and Goodman. Initially, I would like to point out that I have
3 included a revised Attachment A as Schedule 1 of my testimony. The Access Rate Adjustment charts
4 included in the Attachment A filed with the Stipulation and Agreement reflects the companies
5 proposed access rates accurately, but is deficient in reflecting the access rates currently charged. On
6 each chart, for the purpose of effectively representing the rate changes, I have broken the LS1, LS2
7 and Line Termination row into two rows, one for LS1 and Line Termination and one for LS2 and
8 Line Termination. For Goodman, there are two additional rows for Feature Group B (FGB) LS1 and
9 Line Termination and FGB LS2 and Line Termination. In addition, I have included an extra row on
10 each chart for FGB Local Transport.

11 As displayed in the revised Attachment A, for Seneca, the Current Intrastate
12 IntraLATA LS1 and Line Termination is \$0.017700, and the Current Intrastate InterLATA LS1 and
13 Line Termination is \$0.022600. The Current Intrastate IntraLATA LS2 and Line Termination for
14 Seneca is \$0.021800, and the Current Intrastate InterLATA LS2 and Line Termination is \$0.026700.
15 FGB Local Transport for Seneca is \$0.003292.

16 For Goodman, as shown in the revised Attachment A, the Current Intrastate
17 IntraLATA and InterLATA LS1 and Line Termination is \$0.007800 while LS2 and Line Termination,
18 both Intra and InterLATA is \$0.011900. FGB LS1 and Line Termination, which only applies to
19 InterLATA, is \$0.022600 while FGB LS2 and Line Termination is \$0.026700. FGB Local Transport
20 for Goodman is \$0.009876.

21 For Seneca and Goodman, the proposed restructuring of access rates would eliminate
22 the intraLATA Carrier Common Line Access Service (CCL) cap and volume discounted CCL rates

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1 as well as the disparity between interLATA and intraLATA CCL rates. The restructuring would also
2 eliminate the disparity between interLATA and intraLATA LS1, LS2 and Line Termination rates for
3 Seneca. The restructuring would also eliminate the disparity between FGB LS1 and Line Termination
4 and FGB LS2 and Line Termination and that for non-FGB traffic for Goodman. For both companies
5 the LS1 and LS2 rates would become the same (from here on referred to as the Local Switching
6 rate), and the Local Switching rate and Line Termination rate would be combined. Also, several
7 switched access and billing and collection rate elements would be adjusted, including originating and
8 terminating CCL, Local Switching and Line Termination, Directory Surcharge, Local Transport,
9 Recording, Message Billing - Per message, Message Billing Services - State only, Message Billing
10 Services - State/Interstate, CMDS (Centralized Message Distribution System) Transmission and
11 CMDS Sample.

12 Seneca's originating CCL rate would be \$0.019247 per minute, regardless of whether
13 the minute is intraLATA or interLATA and regardless of traffic volume. (Currently Seneca provides
14 a discount after 3,330,615 minutes have been reached, and Goodman provides a discount after
15 3,306,952 minutes). Seneca's terminating CCL rate would be \$0.038494, irrespective of intraLATA
16 or interLATA and volume. Likewise, Goodman's originating and terminating CCL rates would be
17 \$0.010000 and \$0.016425 respectively.

18 Seneca would reduce LS2 and Line Termination from \$0.021800 intraLATA and
19 \$0.026700 interLATA to \$0.017882 for both intraLATA and interLATA, while changing LS1 and
20 Line Termination from \$0.017700 intraLATA and \$0.022600 interLATA to \$0.017882 intraLATA
21 and interLATA.

22 Goodman would change LS2 and Line Termination from \$0.011900 intra and

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Seneca & Goodman

Case No. TR-98-373


AFFIDAVIT OF ANTHONY CLARK

STATE OF MISSOURI)
)
COUNTY OF COLE) SS.

Anthony Clark of lawful age on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 8 pages and 2 Schedules to be presented in the above-referenced case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


ANTHONY CLARK

Subscribed and sworn to before me this 10th day of August, 1998.


Notary Public

My Commission Expires: June 1, 2001

Seneca Telephone Company - Rate Design Change

Annual Reductions

1. Access Rate Adjustment

(\$335,133)

Bring Intrastate switched access rates into parity. Eliminate the CCL cap and discounted CCL rates over a specific volume. Combine LS1 and LS2 rates. Combine End Office Local Switching and Line Termination rates. Reduce Billing and Collection rates.

Access Rate Adjustments are as follows:

Access Rate Element	Current Intrastate IntraLATA	Current Intrastate InterLATA	Proposed Rate
Orig. CCL - Full Level	\$0.043000	\$0.072600	\$0.019247
Term. CCL - Full Level	\$0.073700	\$0.124400	\$0.038494
Orig. CCL - Discount	\$0.001800	N/A	\$0.019247
Term. CCL - Discount	\$0.003100	N/A	\$0.038494
LS1 & Line Termination	\$0.017700	\$0.022600	\$0.017882
LS2 & Line Termination	\$0.021800	\$0.026700	\$0.017882
Directory Surcharge	\$0.000397	\$0.000397	\$0.000198
Local Transport	\$0.022500	\$0.022500	\$0.016500
Local Transport - FGB	N/A	\$0.003292	\$0.016500
Recording	\$0.048300	\$0.048300	\$0.025000
Msg. Billing - Per Msg.	\$0.045900	\$0.045900	\$0.030000
Msg. Billing Svcs. - State Only	\$0.820000	\$0.820000	\$0.201600
Billing Svcs. - State/Interstate	\$0.820000	\$0.820000	\$0.100800
CMD5 Transmission	\$0.008400	\$0.008400	\$0.003000
CMD5 Sample	\$0.000000	(InterLATA only) \$0.016300	(InterLATA only) \$0.002300

2. Digital Carrier

(\$40,233)

Replace all analog carrier at total capital expenditure of \$201,166.

3. Expanded Calling Scope

(\$34,314)

Remove all toll charges for calls between all Seneca and Goodman exchanges. This will increase the number of lines in the local calling scope to approximately 3,881.

4. Touch-tone

(\$32,322)

Remove all Touch-tone charges for all customers. Current Touch-tone charges are \$1.00 per line for residence, \$1.50 per line for business customers.

5. E911 Rate Reduction

(\$4,562)

Reduce E911 rate to flat \$25.00 per month per trunk.

Total Over-earnings

\$446,564

Goodman Telephone Company - Rate Design Change

Annual Reductions:

1. Access Rate Adjustment (\$153,008)

Bring Intrastate switched access rates into parity. Eliminate the CCL cap and discounted CCL rates over a specific volume. Combine LS1 and LS2 rates. Combine End Office Local Switching and Line Termination rates. Reduce Billing and Collection rates.

Access Rate Adjustments are as follows:

Access Rate Element	Current Intrastate IntraLATA	Current Intrastate InterLATA	Proposed Rate
Orig. CCL - Full Level	\$0.026300	\$0.068600	\$0.010000
Term. CCL - Full Level	\$0.045100	\$0.117500	\$0.016425
Orig. CCL - Discount	\$0.000500	N/A	\$0.010000
Term. CCL - Discount	\$0.000900	N/A	\$0.016425
LS1 & Line Termination	\$0.007800	\$0.007800	\$0.015327
LS2 & Line Termination	\$0.011900	\$0.011900	\$0.015327
LS1 & Line Termination, FGB	N/A	\$0.022600	\$0.015327
LS2 & Line Termination, FGB	N/A	\$0.026700	\$0.015327
Directory Surcharge	\$0.000397	\$0.000397	\$0.000198
Local Transport	\$0.019500	\$0.019500	\$0.016500
Local Transport - FGB	N/A	\$0.009876	\$0.016500
Recording	\$0.048300	\$0.048300	\$0.025000
Msg. Billing - Per Msg.	\$0.045900	\$0.045900	\$0.030000
Msg. Billing Svcs. - State Only	\$0.820000	\$0.820000	\$0.201600
Billing Svcs. - State/Interstate	\$0.820000	\$0.820000	\$0.100800
CMDS Transmission	\$0.008400	\$0.008400	\$0.003000
CMDS Sample	\$0.000000	(InterLATA only) \$0.016300	(InterLATA only) \$0.002300

2. Expanded Calling Scope (\$81,274)

Remove all toll charges for calls between all Seneca and Goodman exchanges. This will increase the number of lines in the local calling scope to approximately 3,881.

3. Touch-tone (\$20,970)

Remove all Touch-tone charges for all customers. Current Touch-tone charges are \$1.25 per line for residence and business customers.

4. Digital Carrier (\$12,172)

Replace all analog carrier at total capital expenditure of \$60,862.

5. E911 Rate Reduction (\$2,084)

Reduce E911 rate to flat \$25.00 per month per trunk.

Total Over-earnings \$269,508

Seneca/Goodman Switched Access Revenue Adjustments

Seneca

<u>Rate Element</u>	<u>intraLATA</u>	<u>interLATA</u>	<u>Total</u>
Switched Access			
CCL	(5,619.46)	(186,233.46)	(191,852.92)
Local Switching & Line Termination	(26,967.85)	(21,405.98)	(48,373.83)
Directory Surcharge	(1,369.73)	(526.22)	(1,895.95)
Local Transport	(41,298.39)	(6,910.64)	(48,209.03)
Total Switched Access	(75,255.43)	(215,076.30)	(290,331.73)
Billing and Collection			
Recording	(885.75)	(4,683.81)	(5,569.56)
Message Billing - per message	(14,802.19)	(1,393.92)	(16,196.11)
Msg. Billing Services - State only	(15,144.00)	(525.02)	(15,669.02)
Msg. Billing Services - State/Interstate	(152.68)	(2,018.46)	(2,171.14)
CMDS Data Transmission	(5,027.16)	(27.91)	(5,055.07)
CMDS Sample	0.00	(141.66)	(141.66)
Total Billing and Collection	(36,011.78)	(8,790.78)	(44,802.56)
Seneca Total			<u>(\$335,134.29)</u>

Goodman

<u>Rate Element</u>	<u>intraLATA</u>	<u>interLATA</u>	<u>Total</u>
Switched Access			
CCL	(19,898.52)	(101,653.78)	(121,552.30)
Local Switching & Line Termination	25,433.36	1,698.82	27,132.18
Directory Surcharge	(1,476.87)	(238.36)	(1,715.23)
Local Transport	(22,264.40)	169.47	(22,094.93)
Total Switched Access	(18,206.43)	(100,023.85)	(118,230.28)
Billing and Collection			
Recording	(817.04)	(1,707.21)	(2,524.25)
Message Billing - per message	(14,716.41)	(254.70)	(14,971.11)
Msg. Billing Services - State only	(10,873.33)	(227.57)	(11,100.90)
Msg. Billing Services - State/Interstate	(51.27)	(1,110.03)	(1,161.30)
CMDS Data Transmission	(4,998.03)	(11.49)	(5,009.52)
CMDS Sample	0.00	(51.46)	(51.46)
Total Billing and Collection	(31,456.08)	(3,362.46)	(34,818.54)
Goodman Total			<u>(\$153,048.82)</u>