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April 29, 2002

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65101

Re: Case No. TM-2002-465

Dear Judge Roberts:

Attached for filing with the Commission is the original and eight (8) copies of AT&T Communications of the Southwest, Inc.'s Comments in the above referenced docket.

I thank you in advance for your cooperation in bringing this to the attention of the Commission.

Very truly yours,

A handwritten signature in cursive script that reads "Rebecca B. DeCook".

Rebecca B. DeCook

Attachment

cc: All Parties of Record

**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)
Telecommunications Company for Approval to) CASE NO. TM-2002-465
Merge Modern Telecommunications Company)
and Northeast Missouri Rural Telephone Company.)**

**COMMENTS OF AT&T
COMMUNICATIONS OF THE SOUTHWEST, INC.**

On March 27, 2002, Northeast Missouri Rural Telephone Company (“NEMO”) and Modern Telecommunications Company (“Modern”) filed their joint application seeking authority to merge Modern with and into NEMO. On April 9, 2002, the Missouri Public Service Commission (“Commission”) issued an Order Directing Notice directing any party wishing to file comments to do so no later than April 29, 2002. In response to that Order, AT&T Communications of the Southwest, Inc. (“AT&T”) files the following comments.

1. AT&T is a competitive interexchange telecommunications company duly incorporated and existing under and by virtue of the laws of the State of Delaware, authorized to do business in the State of Missouri as a foreign corporation. AT&T's principal Missouri offices are located at 1100 Walnut, Kansas City, Missouri 64106. AT&T is an authorized provider of intrastate interexchange telecommunication services in Missouri under authority granted and tariffs approved by the Commission, as well as an authorized provider of interstate interexchange telecommunications services under a certificate granted and tariffs approved by the Federal Communications Commission. AT&T has

been granted authority to provide local exchange service and basic local exchange service in portions of Missouri.

2. AT&T does have an interest in this proceeding that is different from that of the general public and AT&T may be adversely affected by a final order arising from this case. For that reason, AT&T does want to make the Commission aware of its concerns with the proposed NEMO/Modern merger. AT&T urges the Commission to carefully consider and hopefully address several issues prior to approving the proposed merger.
3. The joint application states that the proposed transaction will be “revenue neutral” to the customers of both companies and that no customer will experience a change of rates or loss of service due to the proposed merger. However, in merging the two entities, the Joint Applicants’ propose to increase Modern’s average intrastate originating access rate from 7.5¢ per minute to 10¢ per minute; and increase Modern’s average intrastate terminating access rate from 11.6¢ per minute to 15¢ per minute. The proposal seeks to decrease NEMO’s intrastate originating access rate from 11.8¢ per minute to 10¢ per minute; and decrease NEMO’s intrastate terminating access rate from 17.6¢ per minute to 15¢ per minute. Under the proposed merger, a long distance call between a NEMO exchange and a Modern exchange would result in the underlying toll carrier incurring 25¢ per minute of access expense. A long distance call between two NEMO or two Modern exchanges would also result in the underlying toll carrier incurring 25¢ per minute of access expense.

4. In comparison, NEMO and Modern's average interstate originating access rate is only about 3.4¢ per minute; and it's average interstate terminating access rate is only about 3.9¢ per minute. There is no material physical or cost difference between the provision of intrastate and interstate access service to justify a 200-300% price differential. In addition, the NEMO/Modern interstate access rates will be further reduced in the near future as a result of the implementation of the FCC's MAG Plan decision.
5. For another comparison, according to the NEMO/Modern website, NEMO offers a dial-up Internet service where a customer may purchase an additional minute of dial-up Internet access for 1/2¢ per minute. This per minute rate has a maximum usage cap where a customer using more than 200 hours per month would never pay more than \$18.95 per month.
6. In a world where a minute is a minute, it makes no sense that a post-merger minute of intrastate switched access costs 25¢, a minute of interstate switched access costs 7.3¢ and a minute of Internet access costs 1/2¢. The Commission should use this proposed merger as a chance to address these disparate rates.
7. In compliance with the Commission's orders in Case Nos. TO-99-530 and TO-99-254, NEMO filed a revised access tariff sheet on December 4, 2000, which instituted a general rate increase request. Ultimately, the Commission allowed NEMO to raise access rates by \$420,498. The dissenting opinion of Commissioner Connie Murray correctly noted that "Northeast's switched access rates are already among the highest in the state; excessively subsidizing it's local

rates, which are among the lowest in the state. Today's decision increases this distorted subsidy flow".

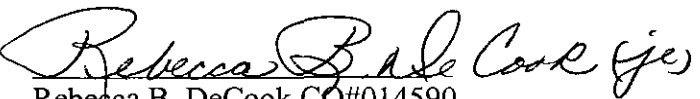
8. AT&T believes that this proceeding is an opportunity to at least reduce implicit subsidies embedded in NEMO/Modern's intrastate switched access rates, as the proposed post-merger access rates for NEMO/Modern are still higher than NEMO's access rates prior to its 2001 rate case.
9. Prior to approving the proposed merger, the Commission should carefully consider whether or not it is in the public interest to set intrastate access rates at such levels which provide incentive for toll carriers to not serve and/or exit the NEMO/Modern market. High intrastate switched access rates that contain implicit subsidies are a deterrent to toll carriers wishing to originate long distance service in all areas of the state. Lowering the NEMO/Modern intrastate access rates will provide an incentive for toll carriers to continue to originate long distance service in the affected exchanges. SWBT has already elected to cease originating intraLATA toll service in the NEMO/Modern exchanges due to the cost of its access service.
10. AT&T also believes the Commission should ensure that Modern is not in an overearnings situation prior to approving the proposed merger. It is important that both parties to the merger have undergone a recent earnings review prior to merger approval, especially since Modern is a wholly owned subsidiary of NEMO.
11. Prior to approving the proposed merger, the Commission should ensure that any and all expense savings arising out of the merger transaction are identified,

captured and returned to the NEMO/Modern customers, including switched access customers. For the reasons stated above, AT&T recommends that intrastate access rates be reduced with any identified and quantified merger savings.

12. Prior to approving the proposed merger, the Commission should consider the implementation of a high cost universal service fund for NEMO/Modern to address the high level of intrastate access rates and provision of toll services.
13. Prior to approving the proposed merger, the Commission should consider the appropriate balance and mix between NEMO/Modern's intrastate access rates, local rates, and other miscellaneous rates.
14. Prior to approving the proposed merger, the Commission should consider the appropriate access rate design between originating and terminating service for NEMO/Modern. As noted above, SWBT has previously exited the originating intraLATA toll market in the NEMO/Modern exchanges due to, at least in part, the high level of originating access rates. High originating access rates result in a competitive disadvantage to full-state toll providers, such as AT&T, as compared to those toll providers (such as SWBT and Southwestern Bell Communications Services, Inc.—SBCS) who only elect to originate toll traffic in the lower originating access cost territories. Therefore, it is in the public interest for the Commission to, at a minimum, restructure the NEMO/Modern access rates so that originating access rates are reduced significantly and any resultant access revenue deficiency is shifted to terminating access rates.

AT&T believes that the Commission should carefully examine and hopefully address each of the above noted issues prior to finding that the proposed merger of NEMO and Modern is in the public interest.

Respectfully submitted,



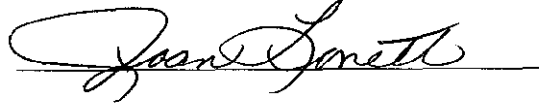
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ATTORNEYS FOR AT&T
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SOUTHWEST, INC.

CERTIFICATE OF SERVICE BY MAIL

A true and correct copy of the foregoing was served upon the parties identified on the following service list on this 29th Day of April, 2002, by U.S. Mail or hand-delivery.

A handwritten signature in cursive script, appearing to read "Jason Smith", is written over a horizontal line.

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