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Witness: Thomas F. Hughes  
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Sponsoring Party: Southwestern Bell Telephone Company  
Case No: TO-99-483

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Missouri Public  
Service Commission

SOUTHWESTERN BELL TELEPHONE COMPANY

CASE NO. TO-99-483

Direct Testimony

of

Thomas F. Hughes


Jefferson City, Missouri

February, 2000

In the Matter of an Investigation for the Purpose of Clarifying and Determining Certain Aspects Surrounding the Provisioning of Metropolitan Calling Area Service After the Passage and Implementation of the Telecommunications Act of 1996 ) Case No. TO-99-483  
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STATE OF MISSOURI                    )  
  )       SS  
COUNTY OF COLE                    )

1. My name is Thomas F. Hughes. I am presently Executive Director-Regulatory in Missouri for Southwestern Bell Telephone Company. My business address is 101 W. High, Floor 1, Jefferson City, Missouri 65101.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

  
Thomas F. Hughes

Subscribed and sworn to before this 26<sup>th</sup> day of January, 2000

*Judith A. Reynolds*  
Notary Public

**My Commission Expires:**

**JUDITH A. REYNOLDS**  
Notary Public, State of Missouri  
Cole County  
My Commission Expires 3/3/2000

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Thomas F. Hughes. My address is 101 W. High, Jefferson City, Missouri.

3

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

5 A. I am employed by Southwestern Bell Telephone Company (SWBT) as Vice President -  
6 Regulatory in Missouri.

7

8 Q. WHAT ARE YOUR RESPONSIBILITIES IN THIS POSITION?

9 A. I am responsible for all of SWBT's tariffs and regulatory activities in Missouri.

10

11 Q. HAVE YOU PROVIDED A SCHEDULE WHICH OUTLINES YOUR WORK  
12 HISTORY, EDUCATIONAL BACKGROUND AND WITNESSING  
13 EXPERIENCE?

14 A. Yes, that information is included in Hughes Schedule No. 1.

15

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

17 A. The purpose of my testimony is to describe Southwestern Bell Telephone Company's  
18 (SWBT's) position on the issues surrounding the investigation of Metropolitan Calling  
19 Area (MCA) service in Missouri. SWBT believes that if the current MCA Plan is  
20 altered to permit competitive local exchange companies (CLECs) to participate, it  
21 must be done in a way that is fair to the incumbent local exchange companies (ILECs)  
22 and customers. CLEC participation should only be permitted if the terms and

1 conditions of the MCA Plan apply equally to all participants and fair compensation  
2 mechanisms are in place.

3  
4 Q. HOW IS YOUR TESTIMONY ORGANIZED?

5 A. It is organized into three sections: background, company participation and customer  
6 participation.

7 BACKGROUND

8 Q. ARE THE CIRCUMSTANCES UNDER WHICH SWBT PROVIDES MCA  
9 SERVICE DIFFERENT THAN THE CIRCUMSTANCES UNDER WHICH  
10 THE OTHER INCUMBENT LOCAL EXCHANGE COMPANIES PROVIDE  
11 MCA SERVICE?

12 A. Yes. SWBT is uniquely situated as a provider of MCA service. SWBT is the only  
13 incumbent provider with customers in the geographic areas where MCA service is  
14 mandatory. In St. Louis and Kansas City, the mandatory area is the principal zone  
15 and first and second tiers, which comprise the respective metropolitan exchanges. In  
16 Springfield, the mandatory area is the central zone and the first tier which comprise  
17 the metropolitan exchange. Additionally, SWBT has the most MCA customers in the  
18 state and will be impacted more by any changes that come about as a result of this  
19 docket. Also, SWBT faces the most competition of any of the incumbent local  
20 telephone companies.

21  
22 Q. WHY ARE THESE RELEVANT POINTS?

1 A. It is important to keep these points in mind when reviewing the positions of the  
2 parties in this case. SWBT's positions may well be different than those of the other  
3 incumbent providers because of the unique circumstances that I described above.

4  
5 Q. ARE THERE OTHER POINTS TO KEEP IN MIND WHILE READING THE  
6 POSITIONS OF THE VARIOUS PARTIES?

7 A. Yes. When the MCA was established in 1993, competition for basic local service  
8 customers did not exist. The companies that were directed to provide MCA service in  
9 Case No. TO-92-306 were ILECs that provided service in their own territories and  
10 were not in competition for basic local service with each other. Today there are  
11 competitive local exchange companies (CLECs) competing, primarily within the  
12 serving areas of SWBT and other large incumbent local companies, for the same  
13 customers. This creates a situation where there are competing and non competing  
14 companies within the geography of the MCA, a situation that was not envisioned  
15 when the current plan was developed. If the current environment had existed when  
16 the MCA was created in 1993, the parties may well have taken different positions and  
17 the provision of MCA service and the interaction among the carriers as ordered by  
18 the Commission may very well have looked different. If the MCA is altered to take  
19 into account the new competitive environment, it must be done in a manner that is  
20 fair to both the MCA customers and the companies providing the service.

1 Q. CAN A CLEC OFFER SERVICE SIMILAR TO THE MCA SERVICE  
2 PROVIDED BY INCUMBENTS?

3 A. Yes. While CLECs are not participants in the Commission's MCA Plan, a CLEC is  
4 permitted to establish via tariff its own local calling scope or optional calling plan(s),  
5 and can establish MCA-like service if it chooses.

6  
7 Q. CAN A CLEC OFFER ALL ASPECTS OF MCA SERVICE?

8 A. The return calling portion of MCA is problematic, particularly for calls from  
9 mandatory MCA areas (i.e., metropolitan exchanges) to optional MCA areas. While  
10 CLECs can provide toll-free return calling to their own customers, CLECs cannot  
11 require SWBT to provide SWBT's customers with toll-free calling. SWBT's tariffs  
12 provide for toll charges to its customers when calling a non-MCA subscriber. CLECs  
13 seek to control SWBT's retail charge to its own customers by precluding SWBT from  
14 charging toll. SWBT treats calls to CLEC customers the same way it treats calls to  
15 SWBT's own customers who do not subscribe to MCA service.

16  
17 Q. WITH REGARD TO CALLS FROM THE METROPOLITAN EXCHANGES TO OPTIONAL  
18 MCA TIERS, DOES SWBT TREAT CLEC AND SWBT NON-MCA CUSTOMERS ALIKE?

1 A. If a SWBT metropolitan exchange customer calls a SWBT MCA subscriber, no toll  
2 charge is assessed because the optional MCA subscriber has paid SWBT for toll-free  
3 return calling. When a SWBT metropolitan exchange customer calls a SWBT non-  
4 MCA customer or a CLEC customer in the optional MCA tier, a toll charge applies  
5 because no one has paid SWBT to eliminate the toll charge to its customer.

6

COMPANY PARTICIPATION

Q. SHOULD CLECS BE PERMITTED TO PARTICIPATE IN THE MCA PLAN?

A. SWBT is concerned about whether the MCA, as it exists today, can be modified to permit inclusion of CLECs while maintaining the fair treatment of ILECs. Three issues are key to a fair resolution: (1) how will SWBT be compensated if it is required to provide toll-free calling for its customers when it is not receiving MCA revenue from the called customer in the optional MCA area; (2) how will intercompany compensation be handled between ILECs and CLECs; and (3) can CLECs choose which terms and conditions of the MCA Plan they will follow?

Q. WITH REGARD TO TOLL-FREE RETURN CALLING, WHAT IS THE ISSUE?

A. SWBT is very concerned that CLECs are seeking to dictate when SWBT charges toll to its customers without paying any compensation to SWBT. From discussions with various CLECs, it is clear to SWBT that some parties seek to control the manner in which SWBT provides its retail offerings to its own customers. We believe this is improper and not authorized under the Act.

Q. COULD YOU PLEASE EXPLAIN?

A. As discussed in more detail in the testimony of Mr. Unruh, the MCA plan includes two aspects. The first is the ability of the MCA subscriber to place outgoing calls to other MCA subscribers and to certain other customers. The second aspect is the



1 ability of the MCA subscriber to receive calls with no toll charge being assessed to the  
2 calling party. With respect to the out-going calling of their customers, CLECs are free  
3 to establish whatever calling plans they desire. However, return calling involves the  
4 retail calling plans of another carrier and is not subject to negotiation under the Act.  
5 It is not appropriate for one company, particularly one in competition with another,  
6 to seek to control the retail offerings of another company. In effect, this would allow  
7 a CLEC to establish a vast local calling area and then force other companies to allow  
8 their customers to place calls to the CLEC's customers on a toll free basis.

9  
10 **Q. WHAT IS DIFFERENT ABOUT THE RETURN CALLING FEATURE WHEN**  
11 **A CUSTOMER IN THE MANDATORY MCA AREA (I.E., THE**  
12 **METROPOLITAN EXCHANGE) PLACES A CALL TO A CLEC END**  
13 **USER RATHER THAN AN INCUMBENT'S OPTIONAL MCA**  
14 **SUBSCRIBER?**

15 **A.** All SWBT customers in the mandatory MCA area (e.g. the St. Louis metropolitan  
16 exchange) may call optional MCA subscribers on a toll-free basis. When customers  
17 in the mandatory MCA area call CLEC customers or SWBT customers who don't  
18 subscribe to MCA service in the optional MCA areas, toll charges apply to SWBT's  
19 customers in the mandatory MCA area. Toll charges apply because the called  
20 customers have not paid SWBT to provide toll-free service.

21  
22 **Q. WHY IS IT IMPORTANT TO MAKE THIS DISTINCTION?**  
23

1 A. When the MCA was established and revenue neutrality calculations were made, the  
2 revenue associated with out-going calling from the metropolitan exchanges to the  
3 optional tiers was offset by the MCA additive paid by the optional MCA subscribers.  
4 No additive was charged to customers in the metropolitan exchanges, which were  
5 designated as mandatory MCA areas. When a competitor takes one of SWBT's  
6 optional MCA subscribers, SWBT loses the revenue, which compensated SWBT for  
7 toll-free calling from its customers in the metropolitan exchange to SWBT's optional  
8 MCA subscribers. This loss goes beyond being classified as merely a competitive loss  
9 because of the design of the existing MCA. It is for this reason that SWBT believes  
10 that compensation for the return calling feature is appropriate if CLECs are permitted  
11 to participate in this MCA Plan.

12  
13 Q. HOW SHOULD THIS COMPENSATION ISSUE BE RESOLVED?

14 A. SWBT believes that is a matter of negotiation between each ILEC and CLEC. It is  
15 not an issue of interconnection under the Telecommunications Act of 1996, since it  
16 involves the retail plan SWBT offers to its customers.

17  
18 Q. WHEN SHOULD COMPENSATION APPLY?

19 A. Compensation should apply when a CLEC or ILEC seeks to require the other to  
20 provide toll-free calling within the geographic area of the MCA when a toll charge  
21 would otherwise be applicable.

1 Q. HAS SWBT ENTERED INTO ANY COMPENSATION PLAN WITH A CLEC  
2 TO PERMIT TOLL-FREE CALLING TO A CLEC'S CUSTOMERS?

3 A. Yes. SWBT reached an interim agreement with Intermedia Communications that has  
4 been filed with the Commission. The agreement contemplates that SWBT would  
5 receive 2.6¢/minute from Intermedia in lieu of charging its own customers toll for calls  
6 made to Intermedia's customers within SWBT's portion of the MCA. The agreement  
7 also requires Intermedia to follow all terms and conditions of the MCA Plan. The  
8 agreement is to be modified as appropriate in compliance with the Commission's final  
9 decision in this case.

10  
11 Q. HOW WAS THE LEVEL OF COMPENSATION ESTABLISHED?

12 A. It was based on SWBT's originating access charges. While SWBT would typically  
13 receive intraLATA toll revenue from its customers for the calls from its metropolitan  
14 exchange customers to a non-MCA subscriber in an optional MCA tier, at toll charges  
15 substantially higher than 2.6¢/minute, SWBT negotiated the lesser compensation on  
16 the theory that those intraLATA toll calls could be carried by an interexchange  
17 carrier, in which case SWBT would receive intrastate access charges of approximately  
18 2.6¢/minute.

19  
20 Q. IS SWBT WILLING TO REACH SIMILAR AGREEMENTS WITH OTHER  
21 CLECS?

1 A. Yes. We advised the CLECs of this position in an accessible letter (CLECM-99-100)  
2 sent on December 21, 1999.

3  
4 Q. WOULD RETURN CALLING BE NEGOTIABLE FOR BOTH SWBT AND  
5 THE CLEC?

6 A. Yes. The return calling feature would be negotiable. That is, both CLECs and ILECs  
7 could select, on a company by company basis, from whom it would purchase this toll-  
8 free return calling capability (e.g., SWBT could purchase this return calling capability  
9 from the CLEC, but the CLEC would not be required to purchase this return calling  
10 capability from SWBT). When a CLEC requests SWBT to provide toll-free calling,  
11 SWBT would propose that compensation be based on tariffed intrastate originating  
12 access rate elements.

13  
14 Q. ASSUMING A CLEC AND SWBT AGREE ON A COMPENSATION PLAN  
15 FOR RETURN CALLING, SHOULD CLECS BE REQUIRED TO FOLLOW  
16 ALL THE TERMS AND CONDITIONS OF THE MCA PLAN?

17 A. Yes. The MCA Plan was carefully constructed to balance the interests of ILECs and  
18 customers, and CLECs should not be permitted to select the terms and conditions of  
19 the Plan they are willing to follow.

20  
21 Q. WHAT ARE SOME OF THE ASPECTS OF THE MCA PLAN THAT A CLEC  
22 PARTICIPANT MUST FOLLOW IF ALLOWED INTO THE PLAN?

1 A. The calling scope for the various areas, intercompany compensation, use of dedicated  
2 NXXs and designated mandatory and optional areas are all integral to the operation  
3 of the plan and should be followed by CLECs, if permitted to participate in the  
4 MCA.

5  
6  
7 Q. WHY IN A COMPETITIVE MARKETPLACE DO YOU SUGGEST  
8 UNIFORM SERVICE OFFERINGS?

9 A. SWBT is suggesting this result because the MCA Plan is a Commission-mandated plan  
10 that did not contemplate competition by CLECs. It is difficult to make such a plan  
11 work fairly in a competitive environment, but if the Commission wants to permit  
12 participation, it must be on equal terms.

13  
14 Q. SHOULD CLECS HAVE THE ABILITY TO OFFER OTHER SERVICES TO  
15 THEIR CUSTOMERS?

16 A. SWBT does not suggest that CLECs be limited to providing only MCA service as  
17 SWBT supports the principle that each provider should have the ability to offer a  
18 calling plan that meets the needs of its customers.

19 However, if CLECs wish to participate in the Commission mandated MCA plan,  
20 they should not be permitted to take the benefits of the plan to gain an advantage  
21 without following all of the parameters of the plan. If one provider is confined by  
22 Commission mandates, then all providers should be subject to the same requirements.

1  
2 Q. IF THE COMMISSION DECIDES TO ORDER PARTICIPATION IN THE  
3 MCA BY CLECS, WHAT PROPOSAL WOULD SWBT MAKE TO ADDRESS  
4 INTERCOMPANY COMPENSATION?

5 A. One of the terms and conditions of the MCA Plan is that intercompany  
6 compensation is on a bill and keep basis, meaning neither carrier reimburses the  
7 other. If the Commission allows CLECs to participate in the plan, then calls under  
8 the MCA Plan between CLECs and SWBT should be bill and keep. Interconnection  
9 agreements typically call for reciprocal local compensation, so modification of these  
10 agreements may be necessary. If the Commission permits CLECs to opt into the  
11 MCA Plan, SWBT and CLECs should modify their interconnection agreements to  
12 provide for bill and keep arrangements on calls under the MCA Plan.

13 CUSTOMER PARTICIPATION

14 Q. WHAT IS SWBT'S POSITION WITH RESPECT TO WHICH CUSTOMERS  
15 CAN OR MUST SUBSCRIBE TO MCA SERVICE?

16 A. SWBT believes that the current design of the MCA is in the public interest and should  
17 be retained. The current mandatory and optional provisions have worked well in the  
18 past.

19 Q. SHOULD THERE BE ANY CHANGES TO OTHER ASPECTS OF THE  
20 PLAN?

21 A. No. There is no need to revisit the original design of the plan in terms of calling  
22 scope, calling patterns or dialing, as long as the compensation issues are properly

1 addressed and CLECs and ILECs are each bound by the terms and conditions of the  
2 MCA Plan .  
3

4 **Q. WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

5 **A.** Yes. The issue of CLEC participation in the current MCA Plan is problematic because of  
6 the return calling aspect, primarily from the mandatory MCA areas (i.e. the metropolitan  
7 exchanges where SWBT is the only incumbent provider). It is no more appropriate for  
8 CLECs to participate in the MCA Plan by dictating whether SWBT charges its own  
9 customers toll for calls to CLEC customers than it would be for SWBT to dictate what  
10 calling plans a CLEC can offer its customers. A compensation arrangement should be  
11 negotiated by ILECs and CLECs if either seeks to require the other to offer toll-free  
12 return calling within the MCA. In addition, if CLECs are entitled to participate, CLECs  
13 should be required to comply with the terms and conditions of the MCA Plan and not  
14 select just those terms they consider advantageous.  
15  
16

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 **A.** Yes it does.

## **SUMMARY OF EDUCATION AND WORK EXPERIENCE**

**Q: WHAT IS YOUR EDUCATIONAL BACKGROUND?**

**A:** I graduated with a BS in Engineering Management from the University of Missouri -Rolla in 1991. I earned a Master of Business Administration from St. Louis University in 1995.

**Q: PLEASE OUTLINE YOUR WORK EXPERIENCE.**

**A:** I began my career with Southwestern Bell in 1991 as a Manager Installation/Repair. After assignments in Finance and with Southwestern Bell's Payphone division, I began working in the St. Louis Market Area. There I held positions as Manager Business Office Support and Area Manager Installation and Repair. In 1995, I helped form SBC's Wholesale Marketing Organization. Over the course of 3 years, I held various positions with responsibilities including Resale, SBC's CLEC training and the CLEC website. In 1998, I was appointed Director of the AT&T local account team. I served in that capacity until accepting my current position in October of 1999.

**Q: HAVE YOU PREVIOUSLY APPEARED AS A WITNESS BEFORE THE MISSOURI PSC?**

**A:** Yes. I appeared before the PSC in Rulemaking TX-2000-160 -snap back procedures for CLECs.