BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of a Further Investigation of)	
the Metropolitan Calling Area Service After)	Case. No. TO-2001-391
the Passage and Implementation of the)	
Telecommunications Act of 1996.	

SOUTHWESTERN BELL TELEPHONE, L.P., d/b/a SOUTHWESTERN BELL TELEPHONE COMPANY'S REPLY BRIEF

Comes now Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company ("SWBT") and, for its Reply Brief, states as follows:

Executive Summary

The Missouri Public Service Commission ("Commission") needs to provide the industry with guidance regarding how it would like this case to proceed. If the Commission is interested in the possibility of implementing the Staff of the Missouri Public Service Commission's ("Staff's") Metropolitan Calling Area Plan-2 ("MCA-2"), the Office of Public Counsel's ("OPC's") proposed geographic expansion of the current MCA plan, or any other proposal that might be offered by any of the parties in this case, the Commission should order the Industry Task Force to hold additional meetings to discuss pricing proposals for such service(s). Until such meetings have occurred, public hearings are premature as there is insufficient information with which to present to the public and upon which the public could provide meaningful comments.

As SWBT noted in its Initial Brief, the Protective Order in this case should not be amended to allow release of any of the information currently designated as "Highly Confidential data." Proposed rates, once developed, however, would not be considered "Highly Confidential" information and could be shared with the public.

Finally, various parties raised numerous issues that are beyond the scope of this docket. Those issues include expanded local calling scopes for rural customers and the availability of access to the internet without incurring the expense of toll calls. The Commission should refrain from addressing these issues as part of this proceeding.

Argument

SWBT received Initial Briefs from: (1) Cass County Telephone Company, Lathrop Telephone Company, Orchard Farm Telephone Company, and Spectra Communications Group, L.L.C. (collectively referred to as Cass County); (2) MITG; (3) OPC; (4) Sprint Missouri, Inc.; and (5) Staff. SWBT will briefly respond to some of the comments that were filed on behalf of Cass County, MITG, OPC, and Staff. However, SWBT has not attempted to respond to all of the comments of all parties, as SWBT has addressed most of these matters in its Initial Brief. A failure to address any issue raised by another party should not be construed as acquiescence to that position.

I. SWBT's Response to Initial Comments of Cass County et al.

A. <u>Expansion of MCA</u>

In its Initial Comments, Cass County states:

Cass County et al. are concerned that as a result of the implementation of MCA-2 and the fact that all customers receive the same calling scope, that customers in the outer tiers will become disenchanted with the fact that they are paying substantially more for essentially the same service that MCA customers in the inner tiers will have. As a result, there will likely be pressure to equalize the prices between the outer and inner tiers which will result in either a revenue windfall for LECs who serve exchanges in the inner tiers or a revenue shortfall for LECs whose exchanges are located in the outer tiers. These additional revenue windfalls and shortfalls have not been identified by the Task Force because no one knows what an appropriate "equalized" MCA rate would be. Even after these additional cost shortfalls are identified, there has been no discussion of how they are to be recovered.¹

¹ <u>See</u> Initial Comments of Cass County Telephone Company, Lathrop Telephone Company, Orchard Farm Telephone Company, and Spectra Communications Group, L.L.C., pages 3-4.

At the outset, SWBT notes that it shares in Cass County's concern that since all MCA-2 subscribers would have the same calling scope under Staff's MCA-2 Plan, there may be the perception that MCA-2 subscribers should all pay the same price for MCA-2 service. For that reason, SWBT believes that if the Commission is interested in exploring the possibility of implementing Staff's MCA-2 proposal, the Commission should direct the Industry Task Force to hold additional meetings to discuss alternative pricing proposals and, if the Commission is interested in establishing a uniform price for MCA-2 service, the Commission should direct the Industry Task Force to explore the possibility of establishing a uniform price for MCA-2 service.

SWBT does not agree that an equalized MCA-2 rate will necessarily produce a windfall for local exchange carriers ("LECs") serving inner tiers and a revenue shortfall for LECs serving outer tiers. SWBT disagrees with Cass County et al.'s conclusion that these additional revenue windfalls and shortfalls have not been identified by the Task Force "because no one knows what an appropriate 'equalized' MCA rate would be." Whether a uniform price would result in revenue windfalls and shortfalls was not identified by the Task Force because the parties did not engage in any significant discussion of specific pricing proposals or any alternative plans that may be proposed. Further, since the Industry Task Force did not examine whether a uniform price would result in windfalls and shortfalls, the Industry Task Force did not discuss how any purported windfalls and/or shortfalls are to be recovered.

Cass County also states:

In addition, Cass County et al. question whether it is fair to continue to focus the Industry's efforts on expanding and improving local calling scopes in the Metropolitan areas, while, at the same time, there are no comparable expanded calling plans in the rural areas nor are there any efforts underway to investigate this issue.⁴

² Id. at 4.

³ See T. at 31, and 113-114, MacDonald (SWBT).

⁴ See Initial Comments of Cass County Telephone Company, Lathrop Telephone Company, Orchard Farm Telephone Company, and Spectra Communications Group, L.L.C., pages 4-5.

As SWBT noted in its Initial Brief, in its Report and Order, Case No. TO-99-483, September 7, 2002, the Commission indicated that it would establish an Industry Task Force to consider additional issues surrounding the MCA service in the St. Louis, Kansas City, and Springfield metropolitan exchanges. The Commission established this case and ordered the Staff to establish a Task Force. The Commission further ordered the Task Force to report back to the Commission with its activities and recommendations. Specifically, the Commission instructed the Task Force to investigate issues related to pricing of MCA service, the effects of an expanded MCA on pricing, and whether the LERG is the appropriate mechanism to identify the MCA NXX codes in the future. Finally, the Commission asked the Task Force to bring to the Commission's attention any other issues it identifies which may impact MCA service and its continued viability in the future. Thus, whether there are comparable expanded calling plans in the rural areas or whether there are efforts underway to investigate this matter are two issues that are beyond the scope of this case.

Moreover, SWBT would also point out that nothing precludes Cass County and other small incumbent local exchange carriers ("ILECs") from proposing to offer their own expanded calling plans. Smaller ILECs who serve multiple exchanges could propose a plan to offer company wide calling plans, or smaller ILECs could propose calling plans in conjunction with surrounding ILECs. An Industry Task Force is not a necessary predicate to the consideration of calling plans in small ILEC exchanges.

⁵ Order Establishing New Case And Creating An Industry Task Force, Case No. TO-2001-391, January 18, 2001.

⁶ Id.

^{′ &}lt;u>Id</u>.

⁸ Id.

B. The Usefulness of the LERG in Identifying MCA and NXX Codes

Cass County opines "Staff and Public Counsel expended significant time and effort to create their own list of MCA NXXs, which Cass County et al. believe would be much more useful than the Local Exchange Routing Guide ("LERG") in identifying appropriate MCA NXX codes." While SWBT does not object to Staff's recommendation that all LECs should be required to timely report their NXX code activations to Staff for a proper posting on Staff's web site, the LERG is also an appropriate mechanism to identify MCA-NXX codes both now and in the future. In fact, this is required by the Commission's Report and Order in Case No. TO-99-483, September 7, 2000, paragraph 13. Specifically, paragraph 13 provides in pertinent part: "the Metropolitan Calling Area NXX Codes shall be identified using the Local Exchange Routing Guide." Id. Thus, although SWBT does not object to the Commission requiring LECs to report their NXX code activations to Staff for a proper posting on Staff's web site, SWBT recommends that the Commission continue to require MCA NXX Codes be identified using the LERG.

II. SWBT's Response to MITG's Initial Comments

MITG's agenda appears to be "creating a rural expanded calling plan to replace the loss of COS and OCA." MITG states:

It will be essential to any such effort for the Commission to create a straw proposal for the industry to consider, evaluate, and respond to. Any such proposal should include a description of the service, its classification as local, its calling scope, its pricing and the amount of traffic included in the price, who the provisioning company will be, what facilities the traffic will traverse, the type of intercompany compensation to be used, and what source or sources of revenue will be available to allow implementation without adverse financial impacts to provisioning carriers.¹³

⁹ <u>See</u> Initial Comments of Cass County Telephone Company, Lathrop Telephone Company, Orchard Farm Telephone Company, and Spectra Communications Group, L.L.C., page 5.

¹⁰ See T. at 75, Poston (Staff).

¹¹ See T. at 116, MacDonald (SWBT).

¹² See MITG Initial Comments Regarding the July 15, 2002 On-the-Record Presentation, page 10.

 $^{13 \}overline{\underline{Id}}$. at 11.

MITG's Initial Comments miss the mark and do not address any of the issues that the Commission established this case to address. Specifically, as indicated above, the Commission established the Industry Task Force to investigate issues related to the pricing of MCA service, the effects of an expanded MCA on pricing, and whether the LERG is the appropriate mechanism to identify the MCA NXX codes now and in the future. How the MITG's discussions entitled: "Missouri ILEC expanded local calling has been provisioned on the intraLATA toll network", "Why customers of ILECs in the MCA did not lose their expanded calling plan", "Commission authority to establish local calling scopes", and "Difficulties Presented with respect to expanding rural local calling scopes in a competitive environment" are irrelevant to the issues for which the Commission established this case. As indicated above, expanded calling plans in rural areas is an issue that is, quite simply, beyond the scope of this docket. For these reasons, MITG's Initial Comments should be summarily dismissed.

III. SWBT's Response to Initial Brief of OPC

In its Initial Brief, OPC asks the Commission to hold public hearings in certain communities that have petitioned the Commission or have shown a "strong community of interest in extending the MCA coverage to their communities." OPC believes "that the Commission should address these petitions by holding public hearings to give these communities an opportunity to demonstrate why it is in the public interest to include their communities in the MCA." 16

¹⁶ Id.

¹⁴ See Order Establishing New Case And Creating An Industry Task Force, Case No. TO-2001-391, January 18, 2001.

¹⁵ <u>See</u> Initial Brief of the Office of the Public Counsel Regarding Options for MCA2 and Other MCA Modifications and Pricing, page 2.

As SWBT stated in its Initial Brief, OPC's request for public hearings concerning the possibility of adding Lexington, Innsbrook (Wright City), Ozark County, and Warrensburg to the MCA, is premature at this time.¹⁷ The Industry Task Force did not examine the potential for expanding the MCA beyond the current geographic boundaries. 18 Although the Task Force acknowledged some demand for such expansion, the Task Force recommended to the Commission that prior to consideration of such expansion, the Commission should determine the feasibility of implementing MCA-2.¹⁹ Even if the Commission is interested in pursuing geographic expansion of the current MCA apart from Staff's MCA-2 proposal, it is not appropriate to conduct public hearings at this time since there are no pricing proposals to discuss with the public, as noted by Commissioner Lumpe and others during the On-The-Record Presentation.²⁰ Therefore, it is not appropriate to have public hearings on expansion until the Commission indicates its desire to investigate geographic expansion and the issue has been more fully developed by the parties.²¹

Under a heading entitled: "Next Step," OPC suggests that the Commission should solicit input from communities and customers seeking modifications to the MCA plan on the following elements:

- Is the current MCA calling plan and other toll plans available adequate or (1) it (sic) there a need to expand to a larger area?;
- (2) If it is expanded, what is expected in terms of price for the expanded calling?;
- What other improvements for the MCA plan are needed to address these (3) "outside" communities?;

¹⁷ See Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company's Initial Brief, page 5.
¹⁸ Id.

- (4) What factors are most important to those communities in subscribing to MCA?;
- (5) Is the current price for MCA reasonable and affordable for the service received? Would customers discontinue the service if the price increased?;
- (6) Is the current MCA reasonably providing those within the present MCA footprint with toll free calling to their community of interest? If not, what modifications are needed?;
- (7) How important do these communities and the customers view having MCA service as compared to other telephone services, especially those that provide toll calling at less than the standard rates or at a flat fee for a block of time?;
- (8) Is it important for consumers to have information about the MCA plan and especially the calling scope included in local telephone directories?²²

SWBT respectfully submits that OPC has placed the cart before the horse. Before the Commission solicits input from communities and customers seeking modifications to the MCA plan, the Commission must determine whether it is interested in exploring the possibility of implementing Staff's MCA-2 proposal, a geographic expansion of the MCA, or any other proposal that might be offered by the parties in this case. If the Commission is interested in exploring the possibility of implementing Staff's MCA-2 proposal, a geographic expansion of the MCA, or any other proposal that might be offered by the parties in this case, the Commission should order the Industry Task Force to conduct additional discussions concerning the method of pricing the proposed service(s). The result of the Industry Task Force discussions should be reported to the Commission so that the Commission can evaluate all pricing proposals. Only after the Commission has reviewed pricing proposals can it determine whether it is truly interested in modifying the MCA plan. If the Commission solicits input from communities and customers seeking modifications to the MCA plan without considering pricing proposals, the

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²² See Initial Brief of the Office of the Public Counsel Regarding Options for MCA-2 and Other MCA Modifications and Pricing, pages 4-5.

Commission may find itself in a situation where customers feel that they were led to believe that there were going to be changes to the MCA plan, which latter may prove to be financially impossible to implement. Thus, OPC's "Next Step" is not warranted at this time.

Finally, OPC indicates that it is revising its internet survey to identify any exchanges where access to the internet cannot be obtained with a local call or a toll free call.²³ OPC states: "[t]he PSC should assure that access to the internet is available to Missourians without the expense of toll calls."²⁴ As noted above, the Commission established the Industry Task Force to investigate issues related to the pricing of MCA service, the effects of an expanded MCA on pricing, and whether the LERG is the appropriate mechanism to identify the MCA NXX codes now and in the future.²⁵ Thus, whether the internet is available to Missourians without the expense of toll calls is beyond the scope of this docket.

IV. SWBT's Response to Initial Brief of Staff

Staff indicates that the Industry Task Force explored both the benefits and detriments of Staff's MCA-2 plan. 26 Staff lists only one detriment--the reduction in revenues for all involved carriers.²⁷ Staff, thereafter, lists six purported benefits of its MCA-2 plan.

At the outset, SWBT notes that while it has acknowledged that there are benefits to Staff's MCA-2 Plan, namely reduction of customer confusion and conservation of NXX codes, 28 Staff certainly downplayed the potential detriments of implementing Staff's MCA-2 Plan. In addition to the reduction in revenues, other potential detriments include: (1) issues surrounding implementation (Would current MCA subscribers automatically be converted to become MCA-2

²³ <u>Id</u>. at 6.

²⁵ See Order Establishing New Case And Creating An Industry Task Force, Case No. TO-2001-391, January 18,

²⁶ See Initial Brief of the Staff of the Missouri Public Service Commission, page 3. ²⁷ Id.

²⁸ See T. at 118, MacDonald (SWBT).

subscribers or would customers have to "opt in" to the plan? How would customers be made aware of MCA-2?); (2) implementation costs; and (3) customer confusion associated with changing a local calling plan that has been in effect for approximately ten years, just to name a few.

Further, Staff's purported benefits, are overstated. Staff's second purported benefit is: "It he number of MCA tiers would be reduced from a five-tier MCA Plan to a simpler two-tier MCA Plan, which divides the MCA into a mandatory and an optional tier, although the MCA-2 maintains the current 5-tiered pricing."²⁹ As SWBT indicated at the Prehearing Conference, at the On-The-Record Presentation, and in its Initial Brief, the discussions to date have largely focused on the revenue impact of implementing MCA-2 and the development of the Final Status Report of the Industry Task Force.³⁰ The parties have not engaged in any significant discussion of specific pricing proposals or any alternative plans that may be proposed.³¹ Although Staff envisions that if its MCA-2 proposal were implemented, the price that each ILEC's customer pays for MCA-service would be the amount its customer currently pays for MCA service plus an additional amount that is required for revenue neutrality if MCA-2 were implemented, ³² Staff's proposal, which would maintain the current 5-tier pricing, is just one alternative.³³ Other pricing proposals have yet to be considered.³⁴ SWBT strongly believes that if the Commission is interested in exploring the possibility of implementing MCA-2, the Commission should direct the Industry Task Force to hold additional meetings to discuss alternative pricing proposals.³⁵

²⁹ See Initial Brief of the Staff of the Missouri Public Service Commission, page 3. (Emphasis added).

³⁰ See Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company's Initial Brief, page 3.

³² While SWBT agrees that revenue neutrality is both necessary and appropriate, SWBT does not believe that Staff's pricing proposal as set forth in the Final Status Report of the Industry Task Force considers all costs and/or revenue impacts that SWBT and the other ILECs would incur and, therefore, does not consider all aspects of revenue

³³ See Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company's Initial Brief, page 2.

 $^{^{35}}$ $\overline{\underline{\mathrm{Id}}}$.

Staff's sixth purported benefit is: "[a]dministrative efficiencies associated with MCA-2 may decrease administrative costs of MCA service."³⁶ There has been absolutely no evidence that would suggest that administrative efficiencies associated with MCA-2 service would decrease administrative costs of MCA service. Claims to the contrary should be dismissed.

Next, Staff recommends that the Commission require all carriers operating in the MCA to timely report their NXX code activations to the Staff for posting on the website.³⁷ As previously mentioned, although SWBT does not object to this requirement, SWBT recommends that the Commission continue its requirement that MCA NXX Codes be identified using the LERG.

Finally, Staff opines that further Industry Task Force meetings may only delay an inevitable disagreement on pricing.³⁸ Staff further opines that an evidentiary hearing is the next step in exploring the merits of the MCA-2 proposal.³⁹ SWBT respectfully disagrees.

As a threshold matter, the Commission needs to notify the industry whether it is interested in exploring the possibility of implementing MCA-2. If the answer to this question is "no," then no evidentiary hearing will be required. If the answer to this question is "yes," then the Commission should order the Industry Task Force to hold additional meetings to discuss alternative pricing proposals, including any that the Commission is interested in exploring. Once those meetings have been held, the Commission should direct the Industry Task Force to present alternative pricing proposals to the Commission. At that time, the Commission should again revisit the question of whether it is interested in the possibility of implementing MCA-2. If the answer to the question is "no," then no evidentiary hearing will occur. If the answer to the questions is "yes," the Commission can proceed to schedule an evidentiary hearing during which

 $[\]frac{36}{5}$ See Initial Brief of the Staff of the Missouri Public Service Commission, page 4. $\frac{37}{10}$ Id. $\frac{38}{10}$ Id.
at 5. $\frac{39}{10}$ Id.

time any disagreements on pricing can be addressed by all parties to this docket.

Conclusion

In summary, the Commission needs to provide the industry with guidance regarding how it would like this case to proceed. If the Commission is interested in exploring the possibility of implementing MCA-2, the Commission should order the Industry Task Force to hold additional meetings to discuss pricing proposals for MCA-2 service. At the present time, there is insufficient information to go forward with public hearings and/or evidentiary hearings on either Staff's MCA-2 Plan or OPC's proposed geographic expansion of the MCA plan. The Protective Order in this case should not be amended to allow release of any of the information currently designated as "Highly Confidential." Proposed rates, once developed, would not be considered Highly Confidential information and could be shared with the public. Finally, issues, including expanded local calling plans for rural customers and access to the internet without incurring the expense of a toll call, are beyond the scope of this docket.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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