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Case No: TO-2005-0035

SOUTHWESTERN BELL TELEPHONE, L.P. d/b/a SBC MISSOURI

CASE NO. TO-2005-0035

DIRECT TESTIMONY

OF

ELIZABETH STOIA

NP

San Antonio, Texas
October 29, 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Second Investigation into the State of)
Competition in the Exchanges of Southwestern Bell) Case No. TO-2005-0035
Telephone, L.P., d/b/a/ SBC Missouri.)

AFFIDAVIT OF ELIZABETH STOIA

STATE OF TEXAS)

SS

CITY OF SAN ANTONIO

I, Elizabeth Stoia, of lawful age, being duly sworn, depose and state:

1. My name is Elizabeth Stoia. I am presently Director – Consumer Marketing for SBC Operations Inc.
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.



Elizabeth Stoia

Subscribed and sworn to before this 21 day of October, 2004



Notary Public

My Commission Expires: 11/06/08

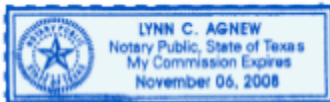


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1 **CASE NO. TO-2005-0035**
2 **SOUTHWESTERN BELL TELEPHONE, L.P., D/B/A SBC MISSOURI**
3 **DIRECT TESTIMONY OF ELIZABETH STOIA**
4

5 **INTRODUCTION**

6 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

7 A. My name is Elizabeth Stoia and my business address is 530 McCullough, San Antonio,
8 Texas 78215.

9
10 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

11 A. I am employed by SBC Operations, Inc. and my title is Director – Consumer Marketing.
12

13 **Q. HAVE YOU PREPARED AN EXHIBIT THAT PROVIDES INFORMATION**
14 **REGARDING YOUR EMPLOYMENT AND EDUCATIONAL AND**
15 **PROFESSIONAL BACKGROUND ?**

16 A. Yes. That information is attached as Schedule 1.
17

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. My testimony supports SBC Missouri's efforts to gain a competitive classification for
20 residential access lines and line-related services such as vertical services.

21 **Q. HOW WILL YOUR TESTIMONY DO SO?**

22 A. My testimony will:

- 23 • Describe residential services available from SBC Missouri, including residence
24 access lines and line-related services such as vertical services;

- 1 • Show the availability of services from alternative providers in SBC Missouri
2 exchanges, thus demonstrating that effective competition exists for these services;
3 • Demonstrate that the services of the alternative providers in the exchanges are
4 functionally equivalent or substitutable at comparable rates, terms and conditions;
5 and
6 • Explain how customers will benefit from a declaration that SBC Missouri’s services
7 are competitive.

8

9 **Q. YOU HAVE GROUPED THE SERVICES INTO TWO CATEGORIES:**
10 **RESIDENTIAL ACCESS LINES AND LINE-RELATED SERVICES. WILL**
11 **YOUR TESTIMONY ADDRESS EACH OF THESE CATEGORIES?**

12 A. Yes, I will be discussing these two categories of residential services. Residential access
13 lines include dial tone and local usage, and line-related services include CLASS and
14 Custom Calling features (CCF) (e.g. Call Waiting, Three Way Calling, Caller ID). A
15 general description of these services is attached as Schedule 2.

16

17 **Q. PLEASE SUMMARIZE THE KEY POINTS YOU WOULD LIKE TO CONVEY**
18 **TO THE COMMISSION.**

19 A. The key points are:

- 20 • There are alternative providers providing substitutable services for SBC Missouri’s
21 residential services;
22 • While the services of obvious competitors to SBC Missouri’s residential services
23 include traditional “landline” services offered by Competitive Local Exchange

1 Carriers (CLECs), there are also non-traditional forms of communication that are
2 substitutable for or functionally equivalent to SBC Missouri's services such as
3 wireless service and Voice over IP (VoIP).

- 4 • SBC Missouri faces pricing constraints that do not apply to its competitors.
- 5 • Customers are not receiving the full benefit of a competitive market because SBC
6 Missouri's existing pricing constraints limit its ability to respond to changing
7 customer demands and a changing competitive marketplace.

8 As a result of these points, the Commission should find that effective competition exists
9 for SBC Missouri's residential services.

10
11 **GENERAL OVERVIEW OF THE COMPETITIVE MARKET**

12 **Q. WHAT ARE THE DIFFERENT TYPES OF COMPETITION THAT SBC**
13 **MISSOURI FACES?**

14 A. The most recognizable form of competition comes from CLECs providing the same types
15 of residential access lines, and line-related services that SBC Missouri provides. While
16 CLECs continue to provide significant competition, SBC Missouri also faces competition
17 from non-traditional service providers. Increasingly, consumers are opting to substitute
18 their wireless service for traditional wireline service. Wireless phone service can more
19 efficiently meet the multifaceted needs of our growing population of technologically
20 savvy consumers. In many cases, consumers have decided that they no longer need a
21 landline telephone, and instead, rely primarily or even exclusively on their wireless
22 phone to make calls to friends and family. Wireless providers have come up with several
23 creative marketing initiatives that encourage increased wireless usage, leading to further

1 landline displacement. Some usage plans allow customers to carry unused minutes over
2 to the next month. "Group/Family plans" allow families or groups to talk for free or
3 share minutes, encouraging groups of customers to subscribe to service together. In
4 addition to mobility that SBC Missouri's residential service cannot provide, wireless
5 service also usually offers much larger local calling scopes than SBC Missouri provides.
6 Verizon Wireless offers America's Choice plans in Missouri. Pricing for these plans
7 begins at \$34.99 and includes Unlimited Night and Weekend Home calling. In addition,
8 these plans include the following features: 3Way calling, 411 Connect, Call Forwarding,
9 Call Waiting, Caller ID, Voicemail and Text messaging.

10
11 **Q. WHAT OTHER NON-TRADITIONAL COMPETITORS IS SBC MISSOURI**
12 **NOW FACING?**

13 A. There is not only competition from wireless services but also from Cable TV companies.
14 These companies provide cable telephony service over their existing cable networks.
15 These competitors bundle Cable TV and Cable Telephony at a discounted price point.
16 An example of this type of competitor is Time Warner. Time Warner, which has the
17 following offer in the market in Missouri. It uses the advertising slogan: "No Surprises.
18 No Long Term Contracts. No Kidding." Time Warner Cable offers new Digital Phone
19 service in serviceable areas of Missouri that includes unlimited local, in state and Long
20 Distance calling throughout the U.S. for "as low as" \$39.95 per month. This offer
21 includes Caller ID, Call Waiting and Call Waiting ID features, Enhanced 911 service,
22 and free installation for service that works over existing phones and jacks. Customer can
23 keep their current phone number.

1 **Q. WHAT IS THE NEWEST NON-TRADITIONAL COMPETITOR THAT SBC**
2 **MISSOURI NOW FACES?**

3 A. The newest competitor to enter the market place are the Voice over IP (VoIP) providers.
4 These competitors provide telecommunications services via the Internet. Customers can
5 receive the same type of services they receive from a traditional telecom provider without
6 limits on calling scope.

7

8 **Q. CAN YOU PROVIDE AN EXAMPLE OF WHAT YOU ARE SEEING BEING**
9 **OFFERED BY VOIP PROVIDERS IN MISSOURI?**

10 A. Yes. AT&T, one of the leading VoIP providers, offers a residential VoIP telephone
11 service it calls "AT&T CallVantage." AT&T promoted this service heavily in a series of
12 national television ads that ran during the Olympic Games. In addition to the more
13 traditional telephone service features like call waiting, three-way calling, and call
14 forwarding, AT&T CallVantage also offers more advanced features like "Call Logs" to
15 track incoming and outgoing calls; "Do Not Disturb" to receive calls only when wanted;
16 "Locate Me," which rings up to five phones all at once or sequentially; "Voicemail with
17 eFeatures" to listen to messages from any phone or PC and then forward them to anyone
18 on the web; and "Personal Conferencing" to set up meetings with up to nine additional
19 callers.

20

21 **Q. WHAT IS NEEDED FOR CUSTOMERS TO USE A VOIP SERVICE LIKE**
22 **AT&T'S CALLVANTAGE?**

1 A. All that is required for service is an easy-to-connect, plug-in telephone adapter that is
2 usually provided by the VoIP provider (or its retail outlet), a broadband Internet
3 connection, and a regular telephone supplied by the customer. According to AT&T's
4 press releases, its VoIP service is simple to use and easy for customers to install,
5 typically in 10 minutes.

6

7 **Q. HOW IS AT&T MARKETING ITS CALLVANTAGE SERVICE?**

8 A. In addition to its own extensive advertising, AT&T has entered into arrangements for
9 several national retailers to market CallVantage service. On August 23, 2004, AT&T
10 announced that it had entered into an agreement with Best Buy Stores to make
11 CallVantage available in all 628 of its stores across the country and online at
12 www.bestbuy.com. Under their agreement, Best Buy will promote AT&T CallVantage
13 through in-store marketing as well as print, broadcast and online advertising. AT&T
14 announced similar agreements with Amazon.com (Amazon's web address is
15 www.amazon.com) on August 25, 2004; and with Circuit City on September 29, 2004
16 (Circuit City's web address is www.circuitcity.com).

17

18 **Q. HAS AT&T MADE ANY ARRANGEMENTS WITH CABLE TELEVISION**
19 **COMPANIES TO MARKET ITS CALLVANTAGE SERVICE?**

20 A. Yes. On August 19, 2004, AT&T announced that it has teamed up with the country's
21 largest cable television operators to offer telephone service over their broadband internet
22 lines. To drive deployment of its CallVantage Internet telephone service, AT&T stated
23 that it struck marketing agreements with Comcast, Time Warner, Cox, Charter

1 Communications and Mediacom. Under the plan, AT&T will refer callers seeking to
2 sign up for CallVantage to the appropriate cable operator to set up the broadband Internet
3 access. With this VoIP service, the customer's phone would be connected to a broadband
4 line rather than the traditional copper telephone line.

5
6 **Q. HOW HAS AT&T PRICED ITS CALLVANTAGE SERVICE?**

7 A. When it initially rolled out its service, AT&T priced CallVantage with unlimited local
8 and nation-wide long distance at \$34.99 per month. But it offered an introductory six
9 month \$19.99 promotional rate. On August 19, 2004 AT&T announced that it was
10 extending this promotional rate through September 30, 2004 and including Canada as
11 part of its nation-wide calling service at no additional charge. On September 30, 2004,
12 AT&T announced that it was cutting the price of this service by \$5.00 (from \$34.99 to
13 \$29.99 per month) and offering one month of free service to spur demand ahead of the
14 holiday season. A few hours after AT&T made this announcement, Vonage announced
15 that it would also lower the price of its unlimited VoIP service by \$5.00 (from \$29.99 to
16 \$24.99 per month).

17
18 **Q. WHAT IS THE SOURCE OF THIS INFORMATION?**

19 A. This information is contained in press releases issued by AT&T, media articles, and in its
20 advertising. Copies of these materials are attached as Schedule 3.

21
22 **Q. WHAT COMPETITION DOES SBC MISSOURI FACE FOR ITS ADDITIONAL**
23 **LINE OFFERINGS?**

1 A. Beyond the competition for the primary access line, there are competitive services
2 available that are substitutable for SBC Missouri's additional line offering. Customers
3 are now able to get Internet access without the need for an additional line. Cable
4 broadband service provides a high-speed data connection over the same line as the cable
5 television line. Providing Internet access at least 20 times faster than a standard-speed,
6 phone line based dial modem, cable modem service can be up to 100 times faster if the
7 provider so chooses. Clearly, Internet access has gone mainstream. An estimated 87% of
8 homes in SBC Missouri exchanges have access to some type of broadband offering. (See
9 Schedule 4P).

10
11 Internet service providers offer web-based services like email and instant messaging, that
12 allow users to stay connected while on-line. With instant messaging the user can
13 communicate instantly and privately with users on their buddy list. A user can keep track
14 of friends by creating a buddy list. They will know instantly when someone on their
15 buddy list is on-line and have the ability to enjoy live conversations online. Instant
16 messaging is popular with the teen segment. Now teens don't need a "teen phone line" to
17 communicate with their friends. The ability to IM has replaced the need for the
18 additional line.

19 There are also free email services that allow the user to send and receive messages. Two
20 of the big names in free Web-based email are Hotmail and Yahoo! Mail, offering free
21 email with no need to utilize special software or settings to access messages, just a
22 computer connected to the Internet and a browser. Users can access the office email
23 from these free services. Hotmail has over 30 million users of its free services

1 worldwide, and these services allow the consumer to check his or her email without the
2 aid of a phone line.

3

4 **Q. HOW WOULD YOU DESCRIBE THE MARKET FOR RESIDENTIAL**
5 **TELECOMMUNICATIONS SERVICES IN MISSOURI?**

6 A. It is very competitive. As I mentioned above, there are many types of competitors
7 providing a multitude of ways for people to communicate. And these competitors are
8 being successful at winning residential customers. In the 3 years since SBC Missouri's
9 last competitive classification case, SBC Missouri has lost over 260,000 residential lines.
10 We have lost lines to traditional CLECs, cable companies, wireless companies and VoIP
11 providers.

12

13 **Q. ARE THERE CERTAIN CUSTOMER SEGMENTS THAT COMPETITORS**
14 **TARGET?**

15 A. Our research indicates that competitors target customers who have a higher monthly
16 spend. On average, the customers we lose to the competition spend **** ___**** on a
17 monthly basis (see Schedule 5HC) in addition, it is evident that the competition is not
18 interested in targeting the low end market since they do not market a la carte features and
19 naked access lines for purchase. As a result, simply looking at line loss numbers, or line-
20 based market share estimates, understates the level of competition in the residential
21 marketplace.

22 **Q. DOES SBC TARGET CERTAIN CUSTOMER SEGMENTS?**

NP

1 A. SBC has products and services available for all customer segments. This includes naked
2 access lines, a la carte features, service packages and bundles We offer service to all
3 customers – including customers who purchase few services that the CLECs do not
4 appear to want to serve.

5

6 **RESIDENTIAL ACCESS LINE SERVICES**

7 **Q. WHAT ARE RESIDENTIAL ACCESS LINE SERVICES?**

8 A. Residential access line services are those services that provide basic voice access to the
9 telecommunications network. For residential service, the most typical is flat rate
10 telephone service (i.e., what is typically thought of as basic local service). Additionally,
11 there are other forms of access including measured service and message rate service.

12

13 **Q. WHAT TYPES OF COMPETITION EXIST FOR RESIDENTIAL ACCESS LINE**
14 **SERVICES?**

15 A. The most well-known type of competition for residential access line services is from
16 certificated CLECs providing tariffed services that are available and directly substitutable
17 for SBC Missouri’s residential access line services. But as mentioned previously, there
18 are other non-traditional providers including wireless and VoIP.

19

20 **Q. ARE THE RESIDENTIAL ACCESS LINE SERVICES THAT THESE CLEC**
21 **COMPETITORS OFFER TARIFFED?**

22 A. Yes. CLECs file tariffs with the Commission that identify their services including terms,
23 conditions and prices.

1 **Q. DO THESE TARIFFS DEMONSTRATE THAT CLECS ARE OFFERING THE**
2 **SAME TYPES OF RESIDENTIAL ACCESS LINE SERVICES THAT SBC**
3 **Missouri PROVIDES?**

4 A. Yes. While there are numerous CLEC tariffs that identify the fact that they provide
5 service in SBC Missouri's exchanges, I have included a few representative samples to
6 demonstrate that CLECs offer similar services at similar prices to SBC Missouri's
7 services. These sample CLEC tariff offerings are included in Stoia – Schedule 6. While
8 CLECs offer basic local service, they also offer package/bundle offerings. For example,
9 in Kansas City and St. Louis, Sage Communications has local/long distance package
10 deals in the market. These plans offer local service with vertical features bundle with
11 Long Distance for as little as \$24.90 per month. Sage's advertising for these packages
12 says:

13 Dear Southwestern Bell customers: Are you ready to say goodbye to the
14 monopoly? And to high prices for the phone services you need?". Sage Telecom
15 in MO offers 3 Local Service Plans for bundled local and LD calling: 1) Simply
16 Savings Plan at \$24.90 per month combines unlimited local service with 100
17 domestic LD minutes per month and free Caller ID. 2) Simply Savings Plus Plan
18 at \$29.90 per month combines unlimited local calling with 250 domestic LD
19 minutes per month plus free Caller ID, Call Waiting and choice of a third feature
20 (Call Forwarding, Call Waiting ID or 3-Way Calling). Extra LD minutes with
21 either of these 2 plans are billed at rate of \$.05 per minute 24/7. 3) Simply
22 Savings Complete Plan at \$49.90 per month offers unlimited local and LD
23 calling, all features, plus free Voice Mail.

24
25 In the more rural markets, competitors such as Big River Telephone are also offering
26 customers packages combining local and long distance. Big River's advertising says:
27 "Timeless talk from Big River". Big River Telephone Company offers residential
28 customers in MO (where available), local service and unlimited long distance calling,
29 plus 4 calling features, for \$44.44 per month.

1 **Q. ARE THE RESIDENTIAL ACCESS LINE SERVICES PROVIDED BY THESE**
2 **CLECS SUBSTITUTABLE FOR OR FUNCTIONALLY EQUIVALENT TO SBC**
3 **MISSOURI'S RESIDENTIAL ACCESS LINE SERVICES?**

4 A. Yes. As can be seen from the CLEC tariffs of Charter, Sage, Vartec and AT&T, the
5 residential access line services and line-related services provided by these competitors
6 provide the same type of access to the network that SBC Missouri's services provide.
7 Whether the customer is purchasing the service from SBC Missouri or from a CLEC, the
8 customer is receiving the ability to access the telecommunications network.

9
10 **Q. ARE THE PRICES THAT CLECS ARE CHARGING FOR RESIDENTIAL**
11 **ACCESS LINE SERVICES GENERALLY COMPARABLE TO THE PRICES**
12 **CHARGED BY SBC MISSOURI?**

13 A. Yes. Schedule 6 provides a table comparing some representative CLEC prices with SBC
14 Missouri's prices. As you can see from this table, the prices charged by CLECs are
15 comparable to those charged by SBC Missouri.

16
17 **Q. ARE THE LOCAL CALLING SCOPES OFFERED BY CLECS COMPARABLE**
18 **TO SBC MISSOURI'S LOCAL CALLING SCOPES?**

19 A. Yes. At a minimum, CLECs typically match SBC Missouri's local calling scopes.
20 However, in areas where optional MCA is available, CLECs sometimes do not assess
21 their customers a separate charge for this service. Sage is an example of a competitor
22 that has used this approach. Sage includes the MCA calling plan as a part of its bundled
23 offering but it is not charging an additional fee for the extending calling as SBC Missouri

1 does. As a result, SBC Missouri has lost a significant number of residential customers in
2 these optional MCA areas.

3
4 **Q. OTHER THAN TARIFFS, WHAT EVIDENCE IS THERE THAT THE**
5 **PRODUCTS OF THESE CLECS ARE SUBSTITUTES FOR SBC MISSOURI'S**
6 **LOCAL SERVICES AND THAT COMPETITORS ARE EFFECTIVELY**
7 **SERVING RESIDENTIAL CUSTOMERS TODAY?**

8 A. The marketing efforts of these competitors throughout the state of Missouri reflect that
9 CLECs are competing with SBC Missouri. I provide examples of advertisements that
10 appeared in SBC Missouri's exchanges targeting residential customers in Schedule 7.
11 These offers make it clear that CLECs are advertising these services as substitutes for
12 SBC Missouri's services. Their advertisements try to entice customers to disconnect
13 SBC Missouri's residential service and purchase the CLEC's service instead.

14
15 **Q. EARLIER YOU MENTIONED THAT SBC MISSOURI ALSO FACES**
16 **COMPETITION FOR RESIDENTIAL ACCESS LINE SERVICES FROM NON-**
17 **TRADITIONAL SOURCES SUCH AS WIRELESS SERVICE. PLEASE**
18 **EXPLAIN HOW WIRELESS SERVICES ARE SUBSTITUTABLE FOR SBC**
19 **MISSOURI'S RESIDENTIAL ACCESS LINE SERVICES.**

20 A. Please refer to Schedule 8 which is a matrix of the wireless offers currently in market in
21 Missouri. As referenced in Chip Shooshan's testimony, wireless service is a viable
22 substitute for landline service and many wireless users in Missouri have substituted
23 wireless service for landline service. Several wireless providers are offering plans with

1 no roaming charges and no domestic long distance charges, and include free Caller ID,
2 and free Call Waiting. Digital wireless service offers the same ability to make and
3 receive calls that SBC Missouri offers, including line-related services like Call Waiting
4 and Caller ID.

5
6 There are three types of customers who use wireless service as a substitute for SBC
7 Missouri's residential services: (1) those that completely replace landline phones with
8 wireless and use their wireless as their primary phones, (2) those who purchase wireless
9 phones instead of additional landline phones, and (3) those who migrate some of their
10 landline minutes of use to their wireless phones. As is evidenced by the survey results
11 presented in Mr. Shooshan's testimony, customers are increasingly substituting wireless
12 service for their traditional landline service. And wireless providers have an advantage
13 over land line providers – customers can take their phone with them, giving them the
14 freedom to make and receive calls wherever they are without worrying about missing a
15 call.

16
17 **Q. WHAT IMPACT DOES WIRELESS SUBSTITUTION HAVE ON RESIDENTIAL**
18 **WIRELINE SERVICE?**

19 A. Wireless substitution has led to a decline in primary access line growth , an increase in
20 disconnections of primary access lines and additional lines and a decline in the minutes
21 of use on the landline network. As I stated in response to the previous question, in some
22 instances, customers are using wireless service as a complete substitute for their landline
23 service. In doing so, customers are avoiding installation and monthly recurring charges

1 for landline service. Also, many customers are using wireless service as a second line.
2 Wireless penetration in the teen market has grown and has taken the place of the “teen
3 phone” or additional line. Also, many customers are using their wireless phone to make
4 toll calls since many wireless plans include unlimited toll calls thus displacing toll calls
5 that would typically be placed over the landline network.

6
7 **Q. ARE WIRELESS PROVIDERS REGULATED BY THE COMMISSION?**

8 A. No. Wireless providers are not under the jurisdiction of the Commission. They do not
9 receive certification from the Commission, they do not file tariffs with the Commission,
10 and the Commission does not regulate their prices.

11
12 **Q. YOU MENTION THAT WIRELESS PROVIDERS’ PRICES ARE NOT**
13 **REGULATED BY THE COMMISSION. ARE THEIR PRICES REGULATED BY**
14 **THE FEDERAL COMMUNICATIONS COMMISSION (FCC)?**

15 A. No. There are typically several wireless providers in each market area and they are free to
16 price their services however they deem appropriate in the market.

17
18 **Q. YOU MENTIONED OTHER NON-TRADITIONAL SOURCES OF**
19 **COMPETITION FOR SBC MISSOURI’S RESIDENTIAL ACCESS LINE**
20 **SERVICES. PLEASE EXPLAIN HOW THESE TECHNOLOGIES ARE**
21 **SUBSTITUTABLE FOR SBC MISSOURI’S RESIDENTIAL ACCESS LINE**
22 **SERVICES.**

1 A. Cable telephony, which uses the cable wiring traditionally used to provide cable
 2 television, is a direct substitute for the SBC Missouri local telephone line. This form of
 3 telephony provides the same service and basic features as traditional phone service.
 4 Charter Cable is a good example. Charter provides cable telephony in Missouri
 5 throughout the St. Louis area. Many of SBC Missouri's former customers have selected
 6 Charter for their telephone service. The table below compares some of Charter's offers
 7 with those of SBC Missouri's:

	Charter	SBC
Access Line	\$9.00	\$7.49- \$12.40
MCA 3	\$10.95	\$12.35
MCA 4	\$12.35	\$21.55
MCA 5	\$19.95	\$32.50
3Way	\$2.75	\$2.62
Privacy Mgr	\$3.25	\$4.30
Call Waiting	\$7.25	\$8.00
Call Waiting ID	\$0.00	\$4.50
Speed 8	\$2.75	\$2.62
Anon Call Reject	\$1.50	\$2.20
Caller ID	\$6.75	\$9.65
5 feat pkg w/o MCA (includes access line)	\$17.95	\$31.95 *
5 feat pkg w MCA (includes access line)	\$29.95	\$41.90 **

* Enhanced Choice - includes access line, CID and 5 features

** Enhanced Choice plus MCA - includes access line, CID and 5 features & MCA

8 Cable companies also offer high-speed Internet access through the use of cable modems.
 9 The connection of the cable modem to the Internet via the cable service is a direct
 10 substitute for a second phone line that can be used to access the Internet via dial-up

1 access. Also, cable modem service provides the ability for customers to use VoIP
2 providers for telephone service.

3
4 **Q. WHAT ARE SOME EXAMPLES OF THESE TYPES OF PROVIDERS?**

5 A. Vonage is a VOIP provider in Missouri with a Local Access and Long Distance bundle in
6 the market. The details of its offering and advertising slogan are:

7 "Make this your local calling area." Vonage offers residents of MO a
8 selection of VoIP local and LD packages with 1 month free service. 1) Basic
9 500 at \$14.99 per month includes unlimited local calling and 500 minutes of LD
10 calling throughout the U.S. and Canada. 2) Unlimited Local at \$24.99 per month
11 includes unlimited local and regional toll calling plus 500 minutes of LD calling
12 throughout the U.S. and Canada. 3) Premium Unlimited at \$29.99 per month
13 includes unlimited local and LD calling throughout the U.S. and Canada. 4)
14 Small Biz Basic at \$39.99 includes 1500 minutes of local and LD calling
15 throughout the U.S. and Canada plus a free fax line. 5) Small Biz Unlimited at
16 \$49.99 per month includes unlimited local and LD calling throughout the U.S.
17 and Canada plus a free fax line. All packages include Voicemail, Caller ID with
18 Name, Call Waiting, Call Forwarding, Three Way Calling, Call Return and
19 more. Customers can keep current phone number and choose any area code.
20 "Great International rates" available, feature rich online management and access
21 to voicemail online via email or by phone.
22

23 As noted previously, AT&T has also entered the market in Missouri as a VOIP provider.

24 The details of its offer and advertising slogan are:

25 Introducing AT&T CallVantage Home Phone Service For High-Speed Internet."
26 AT&T now offers phone service over broadband in MO that includes unlimited
27 local and direct dialed domestic LD calling, new features not available with
28 regular phone service, traditional calling features and savings on international
29 calling. CallVantage is available to customers who have cable or DSL high
30 speed internet connection from any provider and enables customers to have calls
31 fast forwarded to 5 different numbers at once (not available outside the U.S.),
32 tell the phone not to ring but still let urgent calls through, and turn Voicemail
33 into talking email. Personal Conferencing is also currently provided free of
34 charge, but will become a paid feature in the future. Customers who sign up by
35 8/31/04 pay special introductory rate of \$19.99 per month for the first 6 months.
36

1 Furthermore, in many cases companies serving Missouri, like Charter, Time Warner,
2 Comcast and MediaCom, are providing their own VoIP services. Time Warner has a
3 VOIP offering in the Missouri similar to their cable telephony offer. The details and
4 advertising slogan for this offer are: Advertising slogan, "A Better Choice In Home
5 Phone Service Has Arrived". Time Warner Cable offers new residential customers in
6 Digital Phone serviceable areas of MO unlimited calling for "as low as" \$39.95 per
7 month. Includes unlimited local, in state, and interstate LD calling throughout KS, MO
8 and the U.S. Offer comes with free installation (works on existing phones and jacks), and
9 3 calling features including, Caller ID, Call Waiting, and Call Waiting ID. Customer can
10 keep existing phone number. Additional charges apply for Directory Assistance, Operator
11 Services, calls to International locations, taxes and fees. Digital Phone does not include
12 back up power and will not be available during power outages.

13
14 **Q. HOW WOULD YOU CHARACTERIZE THE GROWTH IN THE BROADBAND**
15 **MARKET?**

16 A. It has been explosive, and primarily driven by both residential consumers and small
17 businesses consumers:

- 18 • Consumers and small businesses far outnumber other subscribers in the
19 broadband market, comprising about 26.0 million, or 92 percent, of 28.2 million
20 broadband connections nationwide (*High-Speed Services for Internet Access:*
21 *Status as of December 31, 2003*)
22
- 23 • This consumer trend also holds true in Missouri, where consumers and small
24 businesses account for 92 percent of the state's 439,100 broadband connections.
25 (*High-Speed Services for Internet Access: Status as of December 31, 2003* (June
26 2004)).
27

1 **Q. WHAT ARE THE IMPLICATION OF THIS GROWTH IN WIRELESS AND**
2 **BROADBAND SERVICES FOR TRADITIONAL WIRELINE TELEPHONE**
3 **SERVICES?**

4 A. The rapid increase in wireless and broadband connections reflects the trend of residential
5 customers to substitute these technologies for traditional wireline connections. The
6 continued growth of these services will continue to contribute to the decline of the
7 installation of the primary access line, the substitution and lack of installation of the
8 additional line as well as the decline of toll usage on the landline network.

9
10 **Q. WHAT IMPACT WILL VOIP HAVE ON TRADITIONAL WIRELINE**
11 **TELEPHONE SERVICE?**

12 A. Substitution of VoIP service for traditional landline services is already occurring, and
13 continuing substitution clearly will have a dramatic effect on traditional wireline
14 operators, such as SBC Missouri, as customers opt for Voice over IP-based services.

- 15 • Consumers are beginning to view VoIP as a viable alternative to traditional
16 wireline voice services. The rapidly growing availability of broadband
17 connections across the country gives this technology the potential for very high
18 market penetration and additional wireline substitution. The Yankee Group
19 reports that the percent of U.S. homes that could receive broadband services
20 grew from 64 percent at the end of 2001 to nearly 85 percent at the end of 2002.
21 (Yankee Group, “2003 Broadband Subscriber Forecast Sees Cable Operators
22 Shift into High Gear” (August 2003),
23
- 24 • Underscoring VoIP’s future impact, Michael Powell, FCC chair, recently said in
25 an interview with the Wall Street Journal that the technology will change the
26 very nature of communications and not just the way we make phone calls. (The
27 Wall Street Journal, “A Cheap-Talkin’ Bureaucrat” (July 21, 2004).
28
- 29 • This technology represents a sustainable competitive strategy to gain voice
30 market share. The technology is being exploited by multiple providers including
31 cable operators, wireline, Internet Service Providers (ISPs), and independent
32 VoIP providers.

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- Competitors that have already announced their intent to serve the consumer market utilizing VoIP technology include Charter, AT&T, Cox, Time Warner, Comcast, Cablevision, Level 3 Communications, Vonage, and Packet8. Many of these providers are currently competing for residential customers within the SBC Missouri’s service area (see Schedule 6).
- VoIP introduces another type of competitor who will gain voice market share. Because many of these providers are not regulated, they have the flexibility to compete in ways that SBC Missouri does not. These providers have not filed tariffs nor have they sought pricing approval from the Commission. I believe VoIP will have a big impact on the marketplace.

Q. HAS THE NATURE OR PACKAGING OF TELECOMMUNICATIONS SERVICES CHANGED SIGNIFICANTLY OVER THE LAST FEW YEARS?

A. Yes. Wireline, wireless, cable, and VoIP service providers now compete directly for all distance (national) voice usage.

- The voice communication market has evolved from an industry of “silo service-specific” companies into an “intermodal” industry in which wireline, wireless, cable and VoIP providers successfully compete for the same customer.
- Within the intermodal communications market in Missouri, providers such as Charter, Time Warner AT&T, MCI, Birch, Sage, Vonage, Sprint PCS, T-Mobile, and Verizon Wireless are examples of competing providers that combine various communications services into packages offered for about \$50 per month (see Schedule 9). These packaged services offer consumers the convenience of “one-stop shopping” for a variety of communications needs at attractive prices for the bundle.

Q. BASED ON YOUR EXPERIENCE, WHO ARE SBC MISSOURI’S PRIMARY CLEC COMPETITORS FOR RESIDENTIAL VOICE SERVICE?

A. Based on my observations, AT&T, Sage, Charter, VarTec, MCI, and Big River appear to be our most active competitors.

Q. YOU HAVE DEMONSTRATED THAT SEVERAL FORMS OF ALTERNATIVE PROVIDERS EXIST AND THAT THEY PROVIDE SUBSTITUTABLE

1 **SERVICES FOR SBC MISSOURI'S RESIDENTIAL ACCESS LINE SERVICES**
2 **IN MISSOURI. DO THESE VARIOUS FORMS OF COMPETITORS EXIST IN**
3 **ALL OF THE SBC MISSOURI EXCHANGES IN WHICH SBC MISSOURI IS**
4 **SEEKING A COMPETITIVE CLASSIFICATION FOR RESIDENTIAL ACCESS**
5 **LINE SERVICES?**

6 A. Yes. With respect to CLEC competitors, many CLEC tariffs indicate that they provide
7 residential access line services in all of SBC Missouri exchanges. Non-traditional
8 alternatives, such as wireless service and Internet based offerings, they are also available
9 to customers throughout SBC Missouri's territory. Schedule 10HC identifies competitive
10 losses by exchange.

11
12 **LINE-RELATED SERVICES SUCH AS VERTICAL SERVICES**

13 **Q. WHAT ARE VERTICAL SERVICES?**

14 A. Vertical services are line-related services offering features that can be added to
15 residential access lines to make the line more functional. The typical line-related services
16 are the numerous vertical services that SBC Missouri provides, but they also include
17 things like hunting which allows calls to "hunt" from a busy line to another line that is
18 not busy.

19
20 **Q. WHAT VERTICAL SERVICES DOES SBC MISSOURI OFFER?**

21 A. The vertical services offered by SBC Missouri are called EasyOptions® Services and
22 include the vertical and Custom Calling features (CCF). These include, but are not
23 limited to, services such as, Call Waiting, Auto Redial, Three Way Call, Call Blocker,

1 CallerID with Name Delivery, CallerID with Number Delivery, Speed Dial 8, and Call
2 Waiting ID.

3
4 **Q. EXPLAIN THE IMPACT OF RESIDENTIAL ACCESS LINE LOSS AND HOW**
5 **IT AFFECTS LINE-RELATED SERVICES.**

6 A. The basic residential access line and our additional access line products are point of entry
7 products, meaning that the customer must retain their residential access line to also obtain
8 our vertical services. When a customer disconnects their line and goes to a competitor,
9 SBC Missouri not only loses the recurring line revenue, but it also loses the opportunity
10 for any recurring revenue from the line-related services to which the customer has
11 subscribed.

12
13 **Q. WHAT TYPES OF COMPETITION EXIST FOR VERTICAL SERVICES?**

14 A. Competition for vertical services comes from the same types of providers as the
15 competition for the local services (e.g., CLECs, wireless carriers, VoIP providers). As
16 previously shown on Schedule 6, CLECs provide the same types of vertical services as
17 SBC Missouri and at comparable prices. Furthermore, as consumers substitute their
18 wireless service for traditional wireline service, they then obtain vertical services from
19 their wireless provider. Most, if not all, of the Easy Option Services and CCF vertical
20 services offered by SBC Missouri are available from wireless service providers.

21
22 **Q. ARE THE VERTICAL SERVICES THAT THE CLEC COMPETITORS OFFER**
23 **TARIFFED?**

1 A. Yes.

2

3 **Q. DO THESE CLEC TARIFFS DEMONSTRATE THAT CLECS ARE PROVIDING**
4 **THE SAME TYPES OF VERTICAL SERVICES THAT SBC MISSOURI**
5 **PROVIDES?**

6 A. Yes. For example, Sage provides services in the same exchanges that SBC Missouri's
7 services are offered. Sage's General Exchange Tariff shows that it offers the same
8 vertical services (Easy Options) as are listed in SBC Missouri's General Exchange Tariff.
9 (Schedule 11). Similar offerings can be found in Charter's tariff, which is attached as
10 Schedule 12.

11

12 **Q. ARE THE PRICES CHARGED BY CLECS FOR VERTICAL SERVICES**
13 **GENERALLY COMPARABLE TO THE PRICES CHARGED BY SBC**
14 **MISSOURI?**

15 A. Yes, they are. In Schedule 6, I provide several examples demonstrating that prices
16 charged by CLECs for vertical services generally compare to the prices charged by SBC
17 Missouri. For example, Charter's tariff shows that the monthly rate for 3Way calling is
18 \$2.75. The monthly rate that SBC Missouri charges for this service is \$2.62.

19 Additionally, Charter offers Speed 8 Dialing for \$2.75 while SBC Missouri offers this
20 service for \$2.62. Sage offers these same services for \$2.00 apiece.

21

22 **Q. EARLIER, YOU MENTIONED THAT SBC MISSOURI ALSO FACES**
23 **COMPETITION FOR VERTICAL SERVICES FROM NON-TRADITIONAL**

1 **SOURCES SUCH AS WIRELESS SERVICE. DO YOU HAVE EXAMPLES OF**
2 **MARKETING EFFORTS BY WIRELESS PROVIDERS SHOWING THAT**
3 **THESE PROVIDERS OFFER VERTICAL SERVICES SIMILAR TO SBC**
4 **MISSOURI'S VERTICAL SERVICES?**

5 A. I have demonstrated earlier in my testimony that customers are increasingly using
6 wireless service as a substitute for SBC Missouri's residential access services, and
7 wireless providers are also offering substitutable vertical services.

8
9 As shown in Schedule 8, Verizon, Sprint PCS, Nextel and T-Mobile offer wireless
10 service packages which includes voice mail, Call Waiting, 3 Way Calling, and other
11 vertical features.

12
13 **Q. YOU HAVE DEMONSTRATED THAT SEVERAL FORMS OF ALTERNATIVE**
14 **PROVIDERS EXIST AND THAT THEY PROVIDE SUBSTITUTABLE**
15 **SERVICES FOR SBC MISSOURI'S VERTICAL SERVICES IN MISSOURI. DO**
16 **THESE VARIOUS FORMS OF COMPETITORS EXIST IN ALL OF SBC**
17 **MISSOURI'S EXCHANGES?**

18 A. Yes. As I explained, the same types of providers that offer access line services, such as
19 basic local service, also provide line-related services, such as vertical services like Caller
20 ID and call waiting. They do this to meet customer needs and to increase revenues.
21 Since these providers compete throughout SBC Missouri's exchanges, they also offer
22 these vertical services throughout SBC Missouri's exchanges.

23

1 **Q. WHY SHOULD THIS COMMISSION DECLARE SBC MISSOURI**
2 **RESIDENTIAL ACCESS LINES AND LINE RELATED SERVICES**
3 **COMPETITIVE?**

4 A. Considering both function and price, there are many competitors in Missouri providing
5 functionally equivalent and substitutable products and services in the consumer market
6 related to residential access line services and line-related services like vertical services.
7 The growth in the number of competitors, the breadth of comparable alternatives and
8 competitor marketing efforts clearly demonstrate that comparable alternatives exist
9 throughout all of SBC Missouri's exchanges in Missouri. The time for competitors to
10 have a regulatory-imposed advantage has ended. The Commission should permit the
11 statute to work as the Legislature intended and should grant a competitive classification
12 for SBC Missouri's residential access line and line-related services.

13
14 **Q. WHAT IMPACT WOULD IT HAVE ON THE MARKET IF THESE**
15 **PRODUCTS/SERVICES ARE DECLARED COMPETITIVE? HOW WILL**
16 **CUSTOMERS BENEFIT?**

17 A. As touched on earlier, flexibility in pricing encourages the introduction of new products
18 and technologies into the market. Entrepreneurs are looking for the opportunity to
19 provide products or service to buyers where there is an ability to earn profits. These new
20 technologies will meet customers' needs for new services, helping to improve the quality
21 of their life. It is important to remember that SBC Missouri, as a business, acts as an
22 entrepreneur. Customers will benefit by allowing SBC Missouri to be more innovative
23 and to take more risks. For example, pricing flexibility would allow us to provide better

1 bundles at better prices, something our research has told us that customers want. By the
2 same token our initiatives will lead our competitors to offer their own services at better
3 prices, something that also benefits both customers and the Missouri telecommunications
4 market as a whole.

5

6 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

7 A. I have demonstrated that there are alternative providers providing services that are
8 substitutable for or functionally equivalent to SBC Missouri's residential access line and
9 line-related services. These competitors include traditional CLECs, cable providers,
10 wireless providers and VoIP providers. SBC Missouri is seeking a competitive
11 classification for its residential access line and line-related services so it can compete on
12 more equal terms with its competitors, and it has demonstrated that this classification is
13 warranted.

14

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

16 A. Yes, it does.

SUMMARY OF EDUCATION AND WORK EXPERIENCE

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I have a BA in Communications from the University of Oklahoma awarded in May 1988.

Q. PLEASE DESCRIBE YOUR WORK EXPERIENCE WITH SBC.

A. I am employed by SBC Operations Inc. My title is Director – Consumer Marketing. I have been with SBC for 10 years. My experience has been primarily in Consumer Marketing. My responsibilities include delivering products and promotions that meet the market demand. This includes understanding Residential customers telecommunications needs as well as the competitive offers in the marketplace. I am also responsible for providing regulatory support, life cycle management and product pricing management.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION?

A. No, I have not.