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d/b/a SBC Missouri  
Case No: IT-2004-0015

SOUTHWESTERN BELL TELEPHONE, L.P.  
D/B/A SBC MISSOURI

CASE NO. IT-2004-0015

DIRECT TESTIMONY

OF

CRAIG A. UNRUH

St. Louis, Missouri  
July 31, 2003

**DIRECT TESTIMONY OF CRAIG A. UNRUH**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Craig A. Unruh and my business address is One SBC Center, Room 3528, St. Louis, Missouri 63101.

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

A. I am employed by Southwestern Bell Telephone, L.P., d/b/a SBC Missouri ("SBC Missouri") and serve as its Executive Director-Regulatory. I am responsible for advocating regulatory policy and managing SBC Missouri's regulatory organization.

**Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES YOUR EMPLOYMENT, EDUCATIONAL BACKGROUND AND EXPERIENCE BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?**

A. Yes. The information is contained in Unruh-Schedule 1.

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

A. My testimony demonstrates that the proposed increase to line status verification and busy line interrupt rates as proposed in PSC Mo.-No. 24, Seventh Revised Sheet 5.10 (Unruh-Schedule 2) is consistent with the Missouri price cap statute (Section 392.245 RSMo 2000) and should be approved.

**Q. WHAT ARE THE MAIN POINTS THE COMMISSION SHOULD UNDERSTAND ABOUT YOUR TESTIMONY?**

**A.** The Commission should understand the following points about my testimony:

- Line status verification and busy line interrupt are non-basic telecommunications services as defined in Section 386.020(35) RSMo 2000.
- The proposed rate increases for line status verification and busy line interrupt do not exceed the 8% annual increase for non-basic telecommunications services, which price cap regulated companies like SBC Missouri may make as provided in Section 392.245.11 RSMo 2000.
- Under rate of return regulation, SBC Missouri's rates were set under the pricing principles determined in Case No. 18,309. Competitive and discretionary services were priced above long-run incremental cost, while basic services were residually priced after taking into account the contribution from competitive and discretionary services. Rates determined under this methodology became the initial maximum allowable prices under price cap regulation.
- The price cap statute does not contain any provisions permitting the Commission to reject these proposed increases to non-basic telecommunications services as the proposed increases do not exceed the maximum allowable prices permitted under the statute.

**Q. WOULD YOU PLEASE DESCRIBE THE LINE STATUS VERIFICATION AND BUSY LINE INTERRUPT SERVICES?**

1 A. Line status verification is conducted upon request from a customer, typically when the  
2 customer is unable to complete a call to another party and instead receives a busy signal.  
3 The customer may call an SBC Missouri operator and ask to have the called party's line  
4 checked to determine if there is conversation on the line. Busy line interrupt involves  
5 similar circumstances, but the calling customer requests to have the called party's  
6 telephone call interrupted in order to receive a call from the calling customer. When the  
7 called party's line is interrupted, the SBC Missouri operator will relay a message from  
8 the calling customer and ask the called party if they would be willing to release the line in  
9 order to take the calling customer's call. Calls may be interrupted by the operator in  
10 emergency or non-emergency circumstances.

11  
12 **Q. WHAT ARE THE PROPOSED RATES FOR LINE STATUS VERIFICATION**  
13 **AND BUSY LINE INTERRUPT?**

14 A. The proposed charge for line status verification is \$1.62 per request, an increase of \$0.12  
15 or 8% over the current charge. The charge for busy line interrupt is \$2.49 per request, an  
16 increase of \$0.18 or 7.8% over the current charge.

17  
18 **Q. WHEN DID THE CURRENT RATES FOR LINE STATUS VERIFICATION AND**  
19 **BUSY LINE INTERRUPT GO INTO EFFECT?**

20 A. The current rates for line status verification and busy line interrupt went into effect on  
21 July 10, 2002, which is over 12 months ago.

1 **Q. HOW ARE LINE STATUS VERIFICATION AND BUSY LINE INTERRUPT**  
2 **CLASSIFIED UNDER MISSOURI STATUTES?**

3 A. Both line status verification and busy line interrupt are classified as non-basic  
4 telecommunications services under Section 386.020(35) RSMo 2000.  
5

6 **Q. WOULD YOU PLEASE PROVIDE AN OVERVIEW OF HOW SBC MISSOURI'S**  
7 **SERVICES WERE PRICED PRIOR TO APPLICATION OF THE PRICE CAP**  
8 **STATUTE?**

9 A. SBC Missouri was regulated under a rate of return approach. A rate increase could be  
10 proposed by SBC Missouri or a decrease could be proposed by the Commission, typically  
11 in response to a request by Staff or the Office of Public Counsel. In either event, the  
12 Commission would conduct an analysis of SBC Missouri's cost of service to determine  
13 the level of revenues needed to recover the Commission-approved costs. Cost of service  
14 included such items as wages and salaries, depreciation, taxes, and a Commission-  
15 approved return on SBC Missouri's capital investment. Once the necessary level of  
16 revenues was determined, the Commission established prices for services designed to  
17 recover the cost of services utilizing the methodology determined in the Report and Order  
18 in Case No. 18,309, May 27, 1977 (Unruh - Schedule 3).<sup>1</sup>  
19

20 **Q. WHAT PRICING PRINCIPLES WERE ESTABLISHED IN CASE NO. 18,309?**

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<sup>1</sup> Switched access service as described in current tariffs was introduced in 1984, with the divestiture of AT&T. Prices for switched access service were initially established above parity with interstate switched access service.

1 A. SBC Missouri's services were placed into one of three categories. Category 1 services  
2 were those subject to substantial competitive pressure. Category 2 services were those  
3 classified as basic telephone service. Category 3 comprised the balance of all other SBC  
4 Missouri services.

5  
6 Category 1 services (competitive services) were priced to generate the largest practical  
7 level of contribution to joint and common costs by increasing the price above long-run  
8 incremental cost. Category 3 services (all non-competitive and non-basic services) were  
9 priced utilizing long-run incremental cost as a foundation, adjusted upwards based on  
10 social and economic factors. Category 2 services (basic services) were priced on a  
11 residual basis taking into account the contribution generated from Category 1 and  
12 Category 3 services. Within Category 2, the Commission typically priced business  
13 services at a level two to three times higher than residential service on the theory that the  
14 value of the service was greater to business customers than to residential customers  
15 without regard to the difference in costs between the services.

16  
17 **Q. WHAT WAS THE END RESULT OF THIS PRICING PHILOSOPHY?**

18 A. Competitive and discretionary services were priced well above their incremental cost in  
19 order to generate contribution to joint and common costs. As a result, basic services were  
20 priced on a residual basis taking this contribution into account in order to achieve the  
21 public policy goal of keeping basic service prices, and particularly residential basic  
22 service prices, as low as possible.

1   **Q.   HOW DID THE PRICE CAP STATUTE CHANGE THE PRICING OF SBC**  
2       **MISSOURI'S SERVICES?**

3   A.   SB 507 was passed by the Legislature in 1996. Under the statute, large incumbent  
4       telephone companies (i.e., those serving more than 100,000 lines), like SBC Missouri,  
5       were to be regulated under price caps when a competitor began operating anywhere in the  
6       large incumbent telephone company's territory. Section 392.245.2 RSMo 2000. SBC  
7       Missouri was found to be subject to price cap regulation in a September 16, 1997 Report  
8       and Order in Case No. TO-97-397. (Unruh-Schedule 4).

9  
10   **Q.   ONCE A COMPANY IS SUBJECT TO PRICE CAP REGULATION, HOW ARE**  
11       **ITS PRICES REGULATED?**

12   A.   The price cap statute sets maximum allowable prices for non-competitive services. The  
13       initial maximum allowable prices are those in effect on December 31 of the year  
14       preceding the telephone company's becoming subject to price cap regulation. Section  
15       392.245.3 RSMo 2000. In SBC Missouri's case, the initial maximum allowable rates  
16       were those in effect on December 31, 1996.

17  
18   **Q.   HOW ARE SBC MISSOURI'S MAXIMUM ALLOWABLE PRICES ALLOWED**  
19       **TO CHANGE UNDER PRICE CAP REGULATION?**

20   A.   For exchange access and basic local telecommunications services, the maximum  
21       allowable prices were frozen until January 1, 2000. Thereafter, the maximum allowable  
22       prices for exchange access and basic local services are changed pursuant to one of two

1 indices at the choice of the telecommunications company. Section 392.245.4 RSMo  
2 2000.

3  
4 Non-basic services were not to be changed prior to January 1, 1999 unless, on an  
5 exchange-by-exchange basis, a competitor began operating in that exchange before that  
6 date. Thereafter, the maximum allowable prices for non-basic services may be increased  
7 annually by up to 8% for each of the following 12-month periods upon providing notice  
8 to the Commission and filing tariffs establishing the rates for services in such exchanges.  
9 Section 392.245.11 RSMo 2000.

10  
11 **Q. PLEASE PROVIDE A GENERAL OVERVIEW OF THE IMPACT OF PRICE**  
12 **CAP STATUS ON SBC MISSOURI AS COMPARED TO THE FORMER**  
13 **METHOD OF ESTABLISHING PRICES?**

14 A. Because SBC Missouri had its prices established under the requirements of Case No.  
15 18,309, non-basic and competitive services were initially frozen at levels above their  
16 long-run incremental cost. The price cap statute allows these services to be increased at  
17 the rate of 8% a year beginning on or before January 1, 1999.

18  
19 Basic services, which had received the benefit of contribution from the other services  
20 through the residual pricing method, were frozen at those levels and could only increase  
21 as a result of changes in the price index chosen by the company. SBC Missouri has  
22 elected to utilize the telecommunications-related inflation factor called CPI-TS as its  
23 price index.



1   **Q.    SINCE 1997, WHEN SBC MISSOURI BEGAN TO BE REGULATED UNDER**  
2       **PRICE CAPS, HAVE PRICES FOR EXCHANGE ACCESS AND BASIC**  
3       **SERVICES INCREASED OR DECREASED?**

4    A.   Overall, those rates have decreased. As explained above, the rates for exchange access  
5       and basic services were frozen until 2000. In December, 2000, the rates decreased by  
6       0.92%. In December, 2001, the rates decreased by 0.75%. In December, 2002, the rates  
7       increased by 0.9%. The overall effect of these changes is a decrease of approximately  
8       0.77% from the rates which were in effect on December 31, 1996.<sup>2</sup> As a result of these  
9       changes, the prices for basic local service are lower than they were in 1984.

11   **Q.    SINCE 1997, HAS SBC MISSOURI INCREASED THE RATE FOR NON-BASIC**  
12       **SERVICES BY THE MAXIMUM OF EIGHT PERCENT PER YEAR?**

13   A.   No. First, as explained above, the prices were initially frozen until a competitor began  
14       operating in the exchange or January 1, 1999, whichever came first. Subsequent to that  
15       time, SBC Missouri has adjusted some of its prices based upon its evaluation of the  
16       marketplace.

18   **Q.    DO CUSTOMERS NECESSARILY EXPERIENCE THE PRICE INCREASES**  
19       **THAT SBC MISSOURI HAS MADE ON SELECTED NON-BASIC SERVICES?**

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<sup>2</sup> The percentage change varies slightly for each rate element due to rounding in the rate adjustments over the past three years.

1 A. No. SBC Missouri frequently offers promotions on services that offer discounts off  
2 tariffed prices. Additionally, SBC Missouri offers several packages of services that many  
3 customers utilize to receive discounted prices.  
4

5 **Q. ARE YOU AWARE OF ANY PROVISION OF THE PRICE CAP STATUTE**  
6 **THAT PERMITS THE COMMISSION TO REJECT THIS PROPOSED TARIFF**  
7 **THAT DOES NOT EXCEED THE MAXIMUM ALLOWABLE PRICE?**

8 A. No. Section 392.245.11 provides that a price cap regulated company may increase rates  
9 by up to 8% in a 12-month period “upon providing notice to the Commission and filing  
10 tariffs establishing the rates for such services in such exchanges at such maximum  
11 allowable prices.” Section 392.245.11. These tariffs are to be approved within 30 days.  
12 The tariffs for line status verification and busy line interrupt meet these criteria and  
13 should be approved.  
14

15 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

16 A. Yes.

1 **SUMMARY OF EDUCATION, WORK EXPERIENCE AND QUALIFICATIONS**

2  
3  
4 **Q. PLEASE SUMMARIZE YOUR PROFESSIONAL AND EDUCATIONAL**  
5 **BACKGROUND?**

6 A. I received a Bachelor of Science in Computer Science from Kansas State  
7 University in 1986. I received a Master of Business Administration from  
8 Washington University in St. Louis in 1995. I have been employed by SBC  
9 Missouri since 1986 and have held several positions in the company mostly  
10 working in the regulatory area. I have worked on regulatory issues at both the  
11 federal and state level.

12  
13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

14 A. Yes, I have previously testified in the following Missouri cases:

- 15 • Missouri Case No. TO-98-212, In the Matter of the Investigation into the  
16 Exhaustion of Central Office Codes in the 314 Numbering Plan Area
- 17 • Missouri Case No. TO-97-217, In the Matter of an Investigation Concerning  
18 the Continuation or Modification of the Primary Toll Carrier Plan (PTC)  
19 When IntraLATA Presubscription is Implemented in Missouri
- 20 • Missouri Case No. TO-99-14, In the Matter of the Implementation of Number  
21 Conservation Methods in the St. Louis, Missouri Area
- 22 • Missouri Case No. TO-99-254, et al., In the Matter of an Investigation  
23 Concerning the Primary Toll Carrier Plan and IntraLATA Dialing Parity
- 24 • Missouri Case No. TO-99-483, In the Matter of an Investigation for the  
25 Purpose of Clarifying and Determining Certain Aspects Surrounding the

1 Provisioning of Metropolitan Calling Area Service after the Passage and  
2 Implementation of the Telecommunications Act of 1996

3 • Missouri Case No. TR-2001-344, In the Matter of Northeast Missouri Rural  
4 Telephone Company's Rate Case in Compliance with the Commission's  
5 Orders in TO-99-530 and TO-99-254

6 • Missouri Case No. TO-98-329, Investigation into Various Issues Relating to  
7 the Missouri Universal Service Fund

8 • Missouri Case No. TT-2002-227, et al., In the Matter of Southwestern Bell  
9 Telephone Company's Proposed Revisions to PSC MO No. 26, Long Distance  
10 Message Telecommunications Service Tariff

11 • Missouri Case No. TR-2001-65, In the Matter of an Investigation of the  
12 Actual Costs Incurred in Providing Exchange Access Service and the Access  
13 Rates to be Charged by Competitive Local Exchange Telecommunications  
14 Companies in the State of Missouri