

Exhibit No.: _____
Issue: SWBT Local Plus Resale
Witness: Robert C. Schoonmaker
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Small Telephone Company Group
Case No.: TT-2000-667
Date: November 8, 2000

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²
NOV 08 2000
Missouri Public
Service Commission

In the Matter of the Investigation into the)
Effective Availability for Resale of South-)
Western Bell Telephone Company's Local)
Plus Service by Interexchange Companies)
And by Facilities-Based Competitive Local)
Exchange Companies.)

Case No. TO-2000-667

AFFIDAVIT OF ROBERT C. SCHOONMAKER

Robert C. Schoonmaker, of lawful age, being duly sworn, deposes and states as follows:

1. My name is Robert C. Schoonmaker. I am employed by GVNW Consulting, Inc. as a Vice President.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony with accompanying schedules.
3. I hereby 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 and that the information contained in the attached schedules is also true and correct to the best of my knowledge and belief.

Robert C. Schoonmaker

Subscribed and sworn to before me this 8th day of November, 2000.

Notary Public

My Commission expires: _____

1 REBUTTAL TESTIMONY OF ROBERT C. SCHOONMAKER

2
3 Q. Would you please state your name and address.

4 A. My name is Robert C. Schoonmaker. My business address is 2270 La Montana
5 Way, Colorado Springs, Colorado 80918.

6
7 Q. By whom are you employed and in what capacity?

8 A. I am a Vice President of GVNW Consulting, Inc., a consulting firm specializing
9 in working with small telephone companies.

10
11 Q. Would you please outline your educational background and business experience.

12 A. I obtained my Masters of Accountancy degree from Brigham Young University in
13 1973 and joined GTE Corporation in June of that year. After serving in several
14 positions in the revenue and accounting areas of GTE Service Corporation and
15 General Telephone Company of Illinois, I was appointed Director of Revenue and
16 Earnings of General Telephone Company of Illinois in May, 1977 and continued
17 in that position until March, 1981. In September, 1980, I also assumed the same
18 responsibilities for General Telephone Company of Wisconsin. In March, 1981, I
19 was appointed Director of General Telephone Company of Michigan and in
20 August, 1981 was elected Controller of that company and General Telephone
21 Company of Indiana, Inc. In May, 1982, I was elected Vice President-Revenue
22 Requirements of General Telephone Company of the Midwest. In July, 1984, I
23 assumed the position of Regional Manager of GVNW Inc./Management (the
24 predecessor company to GVNW Consulting, Inc.) and was later promoted to my

1 present position of Vice President. I have served in this position since that time
2 except for the period between December 1988 and November, 1989 when I left
3 GVNW to serve as Vice President-Finance of Fidelity and Bourbeuse Telephone
4 Companies.

5
6 Q. What are your responsibilities in your present position?

7 A. In my current position, I consult with independent telephone companies and
8 provide financial analysis and management advice in areas of concern to these
9 companies. Specific activities which I perform for client companies include
10 regulatory analysis, consultation on regulatory policy, financial analysis, business
11 planning, rate design and tariff matters, interconnection agreement analysis, and
12 general management consulting.

13
14 Q. Have you previously testified in regulatory proceedings?

15 A. Yes, I have testified on regulatory policy, local competition, rate design,
16 accounting, compensation, tariff, interconnection agreements, and separations
17 related issues before the Illinois Commerce Commission, the Public Service
18 Commission of Wisconsin, the Michigan Public Service Commission, the Iowa
19 Utilities Board, the Tennessee Public Service Commission, the New Mexico
20 Public Regulation Commission and the Missouri Public Service Commission. In
21 addition, I have filed written comments on behalf of our firm on a number of
22 issues with the Federal Communications Commission and have testified before
23 the Federal-State Joint Board in CC Docket #96-45 on Universal Service issues.

1

2 Q. Who are you representing in this proceeding?

3 A. I am representing the companies indicated on Schedule RCS-1. Collectively I
4 will refer to these companies as the Small Telephone Company Group (STCG).

5

6 Q. What is the purpose of your rebuttal testimony?

7 A. I will respond to the testimony of Mr. Thomas Hughes of Southwestern Bell
8 Telephone Company (SWBT) regarding the provisioning and offering of Local
9 Plus service for "resale". My primary focus will relate to the impact the current
10 and proposed provisioning may have on STCG members and on other
11 independent telephone companies in Missouri.

12

13 Q. Before getting to the provisioning issues, can you briefly review the issues
14 addressed in Case No. TT-98-351 the case in which the Commission rejected
15 SWBT's Local Plus tariff, but gave guidance on changes to the tariff that the
16 Commission would find appropriate to implement Local Plus?

17 A. Yes. Among the issues addressed in that case was the question of whether the
18 service should be classified as a local service or as a toll service. Related to a
19 certain extent to that issue, was the question of whether the Local Plus service
20 should be required to meet an imputation test. The imputation question was
21 related to the local vs. toll issue because the Commission had previously found
22 that toll services should pass an imputation test. In the course of the case, SWBT
23 indicated that since it would be making Local Plus available for resale, that an

1 imputation test was not needed. In its order in Case No. TT-98-351, the
2 Commission indicated that it would find a tariff for Local Plus acceptable if it
3 allowed resale of Local Plus both to Competitive Local Exchange Companies
4 (CLECs) and to Interexchange Carriers (IXCs). SWBT's tariff filing and
5 subsequent implementation of that tariff reflected SWBT's interpretation of that
6 requirement and steps taken to implement it.

7
8 Q. When you reviewed the Commission's order regarding resale of Local Plus in the
9 context of that case, what was your perception of what the Commission was
10 trying to achieve?

11 A. It was my understanding that the Commission was desiring to approve the tariff
12 so that consumers would benefit from the offering of the service, while protecting
13 competitors from the possibility of inappropriate pricing of the service. By
14 requiring that SWBT resell the service to both CLECs and IXCs, the Commission
15 was intending, I believe, to make the service available to these competitors at the
16 same rate that SWBT was offering it to customers (with wholesale discounts, if
17 appropriate) so that the issue of imputation did not need to be addressed.

18
19 Q. In the context of "resale" of Local Plus, what were your expectations regarding
20 the service that SWBT would be offering to CLECs and IXCs?

21 A. I assumed that to meet what I believed were the Commission's objectives that
22 SWBT would be fully responsible to see that the service was terminated
23 throughout the LATA, with SWBT fully responsible for payment of terminating

1 access to all companies to which it was terminated, for the resold price. Only in
2 this way would the CLECs and IXC's have Local Plus available at the resale price
3 which would fully alleviate the need for an imputation test.
4

5 Q. Is Mr. Hughes' description of how Local Plus is available for CLECs consistent
6 with your understanding of the intent of the Commission's order?

7 A. Only partially. In regard to the offering of the service on a "pure resale" basis, I
8 believe that the description may reasonably reflect the Commission's intent. In
9 making this statement I am assuming that SWBT will continue to accept
10 responsibility for all the terminating access on this traffic.

11 In regard to the offering of Local Plus to facilities-based CLECs, I do not believe
12 that Mr. Hughes' description is consistent with the Commission's intent. On
13 pages 5 and 6 of his testimony, Mr. Hughes recognizes that the offering using
14 unbundled network elements (UNEs) is not resale of Local Plus but would
15 "...permit the CLEC to offer a service like Local Plus." He further indicates that
16 SWBT would develop a price for that service only after receiving a specific
17 request and that the cost would be dependant on a number of variables including
18 the location of the switch and the type and number of switches involved. This
19 offering of the service appears from the description to be very different from the
20 "resale" of Local Plus at a specific price as intended by the Commission's order.
21

22 Q. Does Mr. Hughes' description of this offering also raise concerns that would
23 impact STCG members?

1 A. Yes. This offering, if used by a CLEC, might impact the STCG members
2 differently than would "resale" of Local Plus. Under "resale" it is my
3 understanding that SWBT would be responsible for the payment of all terminating
4 access to the STCG members for Local Plus traffic. Only SWBT would be
5 generating terminating traffic from its exchanges and it would have full
6 responsibility for paying compensation on that traffic. While Mr. Hughes'
7 testimony is not specific about who would be responsible for terminating
8 compensation under the UNE environment, based on the general business
9 relationships associated with UNEs and SWBT's positions in similar
10 circumstances, I believe SWBT would argue that it is the UNE purchaser's
11 responsibility to pay terminating compensation on this offering which allows the
12 provision of a "Local Plus-like" service.

13
14 Q. Why is this of concern to the STCG members?

15 A. Because this would provide another circumstance where a party would be using
16 SWBT's network connections to terminate traffic to the independent company
17 networks without SWBT taking any responsibility for the traffic. In this case it
18 would be worse than other situations since the calls would originate from
19 SWBT's switch using SWBT's central office codes. In order to separate these
20 calls from other calls originating from the SWBT switch, SWBT would
21 apparently have to develop and implement special switch translations to record
22 the calls differently from normal SWBT customer calls. At the terminating end of
23 the call, to the extent that the calling party number (CPN) was passed to the

1 terminating switch, the call would appear to have originated from a SWBT
2 customer.

3
4 Q. Do the experiences associated with the implementation of Local Plus by SWBT
5 give you confidence that they can implement this strategy successfully?

6 A. They do not. As shown by the direct testimony of Mr. Hughes and Mr. Jones,
7 SWBT's implementation of Local Plus was accompanied by implementation
8 errors of significant size. Furthermore, these were errors that SWBT was not able
9 to identify by their normal operational and audit processes.

10
11 Q. In implementing Local Plus, was SWBT aware that the issue of their being able to
12 record properly was of concern to the small companies?

13 A. Yes. This issue was raised in Case No. TT-98-351 by the STCG. In testimony
14 before the Commission SWBT assured the Commission that it could make the
15 appropriate switch translations, record the traffic appropriately, and identify it to
16 the other Missouri companies for appropriate compensation.

17
18 Q. Would you have expected SWBT to be extra cautious in implementing Local Plus
19 and the special translation and recording requirements in view of the regulatory
20 climate at the time it was implemented?

21 A. Yes, I would have. Questions were raised about SWBT's capability to record the
22 Local Plus traffic correctly, but, based on assurances given by SWBT, the
23 Commission approved SWBT's offering of the service. At the same time, issues

1 related to the business relationships associated with all LEC originated toll traffic
2 had been raised and were being discussed before the Commission in the context
3 of the cases related to the Primary Toll Carrier (PTC) plan. The whole issue of
4 relying on records developed at the originating point of the call was in question. I
5 would have expected SWBT to be especially cautious in its implementation of
6 Local Plus in that regulatory environment.

7
8 Q. Did SWBT's implementation of Local Plus provide accurate recording of Local
9 Plus traffic throughout its exchanges?

10 A. No. As indicated in the testimony of Mr. Hughes and Mr. Jones, Local Plus was
11 not implemented properly in a number of SWBT exchanges. In fact, in those
12 exchanges, and others, SWBT generated no records for compensation purposes
13 for well over a year.

14
15 Q. You mentioned that there were other exchanges impacted besides those identified
16 in Mr. Hughes' and Mr. Jones' testimony?

17 A. Yes. In several conversations with SWBT representatives regarding the network
18 test, I have been told that a similar problem was found in an Ericsson host switch
19 in Kennett, Missouri and that Local Plus traffic from all the exchanges that remote
20 off the Kennett switch were impacted by a similar error. SWBT has not given
21 written confirmation of the details of the problems with the Kennett switch
22 including when they were discovered and if, or when, they have been corrected.

1 Q. Has this problem impacted companies other than Mid-Missouri?
2 A. It has impacted, to a greater or lesser extent, each company in the St. Louis and
3 Kansas City LATAs. The extent of the impact is dependant on the proximity of
4 that company to the exchanges where recording was being done incorrectly and
5 the amount of Local Plus traffic generated by end users in those SWBT exchanges
6 to end users in other companies' exchanges. From what we know now, Mid-
7 Missouri had the greatest impact because of its location, but other companies
8 were impacted as well.

9
10 Q. Are you aware of exactly how this problem happened?

11 A. No. SWBT has recognized that there was a problem in the recording in these
12 switches, but has not specifically described how the error occurred. Mr. Hughes'
13 testimony indicates that an incorrect "call type" was associated with these calls.
14 However, his testimony seems to indicate that these calls were recorded using
15 "...call code 001, with a MBI of 13." It has not been made clear what happens to
16 these particular call records. In my conversations with SWBT, I have been led to
17 believe that SWBT does not have these records and cannot reconstruct the amount
18 of unrecorded traffic.

19
20 Q. Does Mr. Jones' description of the steps he took cause you concerns about
21 SWBT's ability to identify such problems?

22 A. It certainly does. Local Plus was initially implemented in a few exchanges in
23 December, 1998 and generally implemented across the state in June, 1999. One

1 would have expected SWBT to verify in the months after that time that its Local
2 Plus implementation had been done correctly and that appropriate records were
3 being generated. Either it didn't do that, or its procedures were inadequate to
4 identify this major problem. Mr. Jones identified the problem and began serious
5 communication with SWBT regarding the issue of missing traffic. From my
6 conversations with Mr. Jones, I believe this process was well under way in the
7 Spring of 2000. SWBT still did not identify the problem. Mr. Jones then notified
8 SWBT, in June, I believe, that he was going to shut off their trunks and SWBT
9 filed a complaint regarding that before the Commission. An emergency hearing
10 was held before this Commission where SWBT told the Commission that the
11 traffic for which Mr. Jones was not being compensated was not their traffic. One
12 would presume that SWBT would check their systems quite carefully during this
13 three to four month time period to assure that they were not causing a problem
14 and before making such a representation to the Commission. They still did not
15 find the problem.

16
17 Q. What finally caused SWBT to identify their Local Plus recording problem?

18 A. It was finally discovered as a result of the industry test that happened to be taking
19 place in July of this year in conjunction with Case No. TO-99-593. SWBT has
20 indicated that they discovered the Local Plus problem when reviewing
21 preliminary results of this test. One can only wonder how long it would have
22 taken SWBT to identify the problem had this test not taken place at the time.

1 Q. How do all these problems relate to the resale of Local Plus?

2 A. They demonstrate the kinds of errors that can occur when special switch
3 translations are required for the recording of messages and the substantial
4 difficulties that they can cause. They also demonstrate the problems caused by
5 the current business relationships related to interconnection between SWBT and
6 the small LEC networks when there is a lack of clear responsibility for the
7 terminating traffic. In spite of a "devastating" problem that developed for Mid-
8 Missouri, SWBT was not sufficiently concerned to identify the problem, but
9 simply blamed it on others. In the context of resale of Local Plus, the
10 Commission should make clear that however such "resale" is implemented,
11 whether by pure resale or by UNE "resale," SWBT should be fully responsible for
12 compensation for all the terminating traffic for this service.
13

14 Q. Do the issues raised by the problems in recording Local Plus also raise questions
15 about the business arrangements related to interconnections between SWBT and
16 the other PTCs, and the smaller LECs in Missouri?

17 A. They certainly do highlight the problems that such business relationships cause
18 and the lack of motivation they engender in trying to solve such problems. We
19 will be exploring that issue further in Case No. TO-99-593.
20

21 Q. Does this conclude your testimony?

22 A. Yes, it does.

SMALL TELEPHONE COMPANY GROUP

Case No. TO-2000-667

BPS Telephone Company
Cass County Telephone Company
Citizens Telephone Company of Higginsville, Mo., Inc.
Craw-Kan Telephone Cooperative, Inc.
Ellington Telephone Company
Farber Telephone Company
Fidelity Telephone Company
Goodman Telephone Company
Granby Telephone Company
Grand River Mutual Telephone Corporation
Green Hills Telephone Corp.
Holway Telephone Company
IAMO Telephone Company
Kingdom Telephone Company
KLM Telephone Company
Lathrop Telephone Company
Le-Ru Telephone Company
Mark Twain Rural Telephone Company
McDonald County Telephone Company
Miller Telephone Company
New Florence Telephone Company
New London Telephone Company
Orchard Farm Telephone Company
Oregon Farmers Mutual Telephone Company
Ozark Telephone Company
Peace Valley Telephone Company
Rock Port Telephone Company
Seneca Telephone Company
Steelville Telephone Exchange, Inc.
Stoutland Telephone Company

Schedule RCS-1