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**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. TO-2004-0207**

**PHASE I**

**DIRECT TESTIMONY**

**OF ROBERT W. McCAUSLAND**

**ON BEHALF OF**

**SAGE TELECOM, INC.**

FILED

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**PHASE I DIRECT TESTIMONY**

**OF**

**ROBERT W. McCausland**

**CASE NO. TO-2004-0207**

**I. BACKGROUND AND PURPOSE OF TESTIMONY**

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

A. My name is Robert W. McCausland. My business address is 805 Central Expressway South, Suite 100, Allen, Texas 75013-2789.

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

A. I am the Vice President—Regulatory Affairs for Sage Telecom, Inc. (“Sage”). I am responsible for all aspects of Sage’s regulatory compliance and authority, regulatory policy formulation and implementation, tariffs, traffic exchange contracts, interconnection agreements, and legislative relations.

**Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE WITHIN THE TELECOMMUNICATIONS INDUSTRY.**

A. I have nearly twenty years’ of broad management-level experience within the, telecommunications industry which I describe here at a very high level: My current responsibilities at Sage are described above. Prior to joining Sage, I was a consultant to CloseCall America, Inc. Before that, I was Allegiance Telecom’s Vice President of Regulatory and Interconnection. I have also worked for MFS Communications Company, where my responsibilities included collocations and unbundled loop implementation, and for Bell Atlantic, where my areas of responsibility included the

1 negotiation of early CAP collocation and interconnection arrangements, switched and  
2 special access product line management, the negotiation of the company's first region-  
3 wide interconnection agreements for wireless carriers, service cost study development,  
4 and various functions within areas of state and federal regulatory. Attached to my  
5 testimony is Schedule JWM-1, which consists of my resume.

6 **Q. WHAT ARE THE PRIMARY PURPOSES OF YOUR TESTIMONY?**

7 A. The primary purposes of my testimony are to:

- 8 (1) provide a brief description of Sage and the company's markets and customers;
- 9 (2) present Sage's stance on the relevant geographic market and cross-over points for  
10 the State of Missouri, along with supporting rationale; and to
- 11 (3) highlight many of the implications of this proceeding to Sage and to Missouri  
12 consumers.

13 **II. BRIEF DESCRIPTION OF SAGE TELECOM, INC.**

14 A. **Business Operations**

15 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF SAGE AND ITS**  
16 **OPERATIONS IN MISSOURI.**

17 A. Sage is a competitive local exchange carrier ("CLEC") licensed to provide basic and  
18 intrastate interexchange telecommunications services in all portions of the State of  
19 Missouri that are served by Southwestern Bell Telephone Company d/b/a SBC Missouri  
20 ("SBC Missouri"), Sprint Missouri, Inc d/b/a Sprint, GTE d/b/a Verizon, and Spectra

1           Communications Group, L.L.C.<sup>1</sup>       Sage is also certificated to provide  
2           telecommunications services in Arkansas, California, Illinois, Indiana, Kansas,  
3           Michigan, Oklahoma, Ohio, Texas, and Wisconsin.

4   **Q.    WHAT IS SAGE'S MARKET FOCUS?**

5   A.    Sage has identified a particular customer need or niche in today's evolving local  
6           exchange market; an area of customer demand that Sage is well-equipped to address.  
7           Sage's primary business focus is on providing competitive local and interexchange  
8           telecommunications services to residential and small business customers in *suburban*  
9           *communities and in some rural and urban areas of Missouri*. Sage's target market  
10          evolves from broader areas during the initial rollout phase to neighborhoods and  
11          community areas in the follow-up marketing phase; however, Sage does not decline to  
12          serve any residential or commercial customers within the geographic areas in which it  
13          is offering service areas as long as the customer meets the requirements contained in  
14          Sage's Commission-approved tariffs (Sage just does not continue to market to certain  
15          areas).

16   **Q.    HAS SAGE BEEN SUCCESSFUL IN IMPLEMENTING ITS MARKET FOCUS**  
17          **IN MISSOURI?**

18   A.    Yes.    Currently Sage serves approximately 32,700 residential and small business  
19          customers in Missouri.    Of that number, approximately 94% are residential customers  
20          and 6% are small business customers.    As further evidence of Sage's success,

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<sup>1</sup>        See Case No. TA-2002-29; *In the Matter of the Application of Sage Telecom, Inc. for a Certificate of Service Authority to Provide Basic Local Telecommunications Service in the State of Missouri and to Classify Said Services and the Company as Competitive*; Order Granting Certificate to Provide Basic Local Telecommunications Services (Sept. 24, 2001); Case No TA-2002-30; *In the Matter of Application of Sage Telecom, Inc. for a Certificate of Service Authority to Provide Competitive Intrastate Interexchange Telecommunications Services within the State*

1 approximately 9% are rural; 52% are suburban, and 39% are urban customers. Based  
2 on my understanding of the markets in Missouri, I am not aware of any other CLEC  
3 that has focused on *residential and small business customers* that way that Sage has.

4 **Q. HOW DOES SAGE PROVIDE SERVICES TO ITS CUSTOMERS?**

5 A. Sage provides basic local exchange service to customers *exclusively* through access to  
6 SBC Missouri's UNE-Platform ("UNE-P"). Sage provides intraLATA toll services in  
7 Missouri through use of SBC Missouri's UNEs. Sage provides other long distance  
8 service to its customers through arrangements with long distance carriers. Furthermore,  
9 Sage has traditionally leased voice mail service capacity from a third-party provider  
10 and used that capacity to serve its customers; however, Sage is in the process of  
11 deploying its own voice mail platform.

12 **Q. DOES SAGE OWN SWITCHES OR TRANSMISSION FACILITIES USED TO**  
13 **PROVIDE SERVICE TO ITS CUSTOMERS?**

14 A. No. Sage does not own any switches or other transmission facilities. However, as just  
15 referenced, Sage is in the process of deploying its own voice mail platform and intends  
16 to continue to evolve towards providing more value-added, differentiated products to its  
17 customers.

18 **B. Sage's Service Offerings**

19 **Q. WHAT ARE THE TYPES OF SERVICES PROVIDED BY SAGE IN**  
20 **MISSOURI?**

21 A. Basically, Sage's product offerings are based on combining or packaging local, toll  
22 (intrastate), and long distance (interstate) offered at a flat monthly rate. The Company

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*of Missouri and to Classify Said Services and the Company as Competitive, Order Approving Interexchange*

1 was one of the first to pioneer this type of bundling of products in accordance with  
2 consumer demand, particularly in the exurban areas. The bundled product offerings  
3 also include unregulated features, such as Caller ID, Call Waiting and voice mail, and  
4 other features that can be obtained in addition to the bundled offer. Each of the  
5 offerings contains a set number of "long distance" (intraLATA and interLATA)  
6 minutes that the customer may use as part of the flat monthly fee. Then, if the customer  
7 uses more than the allotted amount of long distance minutes, Sage charges a per minute  
8 rate for long distance calls. Sage has bundled offerings for residential and small  
9 business customers.

10 **Q. DOES SAGE MARKET ITS UNE-P BASED SERVICES THROUGHOUT THE**  
11 **ENTIRE STATE OF MISSOURI?**

12 A. No. Although Sage is authorized to provide service within the exchanges of various  
13 incumbent local exchange companies, Sage only provides service within areas served  
14 by SBC Missouri and, even there, Sage does not perpetually target all customers and  
15 all areas.

16 **Q. DOES SAGE HAVE ANY PLANS TO SERVE ITS MISSOURI CUSTOMERS**  
17 **USING FACILITIES THAT IT DEPLOYS TO "BYPASS" SBC?**

18 A. No, Sage does not currently plan to deploy local bypass facilities, nor does Sage  
19 believe that it would be able to serve residential and small business customers that are  
20 dispersed over such wide geographic areas through bypass facilities. Rather, Sage  
21 plans to continue to utilize SBC Missouri's UNE-P service, packaged with the long  
22 distance service cited above, and possibly packaged with other services that Sage may  
23 be able to obtain from other providers or that Sage may be able to provide itself.

1 **Q. WHAT SBC-MISSOURI AREAS ARE TARGETED BY SAGE?**

2 A. Sage targets many of the suburban areas spread across SBC Missouri's operating area  
3 as well as neighborhoods and community areas where initial customer response rates  
4 exceed average customer response rates.

5 **Q. WHAT CUSTOMERS ARE TARGETED BY SAGE?**

6 A. Sage targets and serves exclusively mass market customers, *i.e.*, residential and small  
7 business customers whose premises are served through DS-0/voice grade level  
8 facilities. Most such customers purchase a single line; however, a few have multiple  
9 lines, although typically not more than five or six.

10 **Q. PLEASE DESCRIBE SAGE'S INITIAL PROCESS FOR TARGET**  
11 **MARKETING MASS MARKET CUSTOMERS WITHIN AREAS OF SBC**  
12 **MISSOURI'S OPERATING TERRITORY.**

13 A. First, NPA/NXXs within SBC Missouri's operating areas are identified along with  
14 the customers' names and addresses associated with those NPA/NXXs. Then the  
15 NPA/NXX name and address list is supplemented with results of a zip-code and  
16 exchange boundary analysis. Finally, screening of the list takes place to address  
17 any apparent anomalies and to help ensure adherence to do-not-call rules. The  
18 resulting list is used for mailers sent to the residential and small business addresses  
19 within the target areas. The resulting list may also be used by telemarketers that  
20 Sage sometimes hires to contact target-area customers who are not listed on the do-  
21 not-call lists.

22



1 **Q. ARE THERE OTHER WAYS THAT SAGE TARGET MARKETS MASS**  
2 **MARKET CUSTOMERS? IF SO, PLEASE DESCRIBE SUCH.**

3 A. Yes. Sage also relies on word-of-mouth type marketing. A great deal of marketing  
4 in this industry is built on word-of-mouth and maintaining good customer relations  
5 and a good reputation. Also, as addressed above, Sage "repeat markets"  
6 neighborhoods and community areas where initial response rates exceed average  
7 response rates.

8 **Q. DOES SAGE UTILIZE MASS MEDIA MARKETING OR "DOOR-TO-**  
9 **DOOR" MARKETING APPROACHES?**

10 A. No, Sage does not utilize either a mass media or door-to-door marketing approach.

11 **Q. WHY NOT?**

12 A. Sage does not believe that such approaches could be cost effective due to the  
13 spending characteristics of geographically-dispersed mass market customers in rural  
14 and suburban markets. Sage's early experimentation with targeted mass media  
15 advertising in another state was not productive.

16 **Q. DOES SAGE MARKET ITS UNE-P BASED SERVICES TO CUSTOMERS IN**  
17 **MISSOURI BASED ON THE METROPOLITAN STATISTICAL AREAS**  
18 **("MSAs") DEFINED BY THE U.S. OFFICE OF MANAGEMENT AND**  
19 **BUDGET?**

20 A. No.

21

1   **III. THE GEOGRAPHIC MARKET DETERMINATION**

2     **A. The Importance of the Geographic Market Determination**

3     **Q. WHY IS THE DETERMINATION OF A GEOGRAPHIC MARKET**  
4     **IMPORTANT TO THIS PROCEEDING?**

5     A. In Paragraph 493 of the *Triennial Review Order*<sup>2</sup>, the Federal Communications  
6     Commission (“FCC”) found “competitors [such as Sage] to be impaired without access to  
7     the incumbent LEC’s switch on a national level when serving the mass market” and  
8     authorized “state commissions to play a fact-finding role . . . to identify where competing  
9     carriers are not impaired without access to unbundled local circuit switching.” Under the  
10    Triennial Review Order, this Commission has the “discretion to determine the contours  
11    of each [geographic] market” as a prerequisite for determining whether or not the  
12    presumption of competitive impairment should be lifted.

13             The delineation of geographic areas for application of the impairment test under  
14    the *Triennial Review Order* is paramount to the Commission’s ability to fairly judge and  
15    implement the impairment test. For example, if the geographic market is defined too  
16    broadly such that it incorporates both metropolitan and urban areas and customers as well  
17    as Sage’s primary market, suburban and certain rural and urban areas and customers, then  
18    Sage and its customers will be detrimentally affected in the event the Commission applies  
19    a non-impairment decision to the broad geographic area. In Sage’s view, this  
20    Commission is charged with the task of defining a geographic market smaller than the  
21    State, yet not “so narrowly that a competitor serving that market alone would not be able  
22    to take advantage of available scale and scope economies from serving a wider market.”

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<sup>2</sup> *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC Docket No. 01-388, *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket No.

1 Q. DID THE FCC GIVE ANY GUIDELINES TO STATE COMMISSIONS ON HOW  
2 TO CREATE THESE GEOGRAPHIC MARKETS FOR PURPOSES OF  
3 EXAMINING WHETHER OR NOT TO REBUT THE PRESUMPTION OF  
4 COMPETITIVE IMPAIRMENT?

5 A. Yes. The FCC gave some factors that Commission should take into consideration such as  
6 “the locations of customers actually being served (if any) by competitors, the variation in  
7 factors affecting competitors’ ability to serve each group of customers, and competitors’  
8 ability to target and serve specific markets economically and efficiently using currently  
9 available technologies,” among other factors, in geographically dividing Missouri for  
10 purposes of the Commission’s analysis. However, as I am sure all parties will agree,  
11 there are numerous ways to do so within the parameters defined by the FCC.

12 B. Sage’s Recommended Geographic Market Definition

13 Q. WHAT DO YOU THINK WOULD BE THE CORRECT GEOGRAPHIC  
14 MARKET FOR THE COMMISSION’S IMPAIRMENT ANALYSIS?

15 A. It is Sage’s position that the Commission should take the geographic market definition  
16 standards set forth in the *Triennial Review Order* and overlay them onto actual CLEC  
17 network deployment to determine mass market geographic boundaries in Missouri. The  
18 *Triennial Review Order* directs the Commission to consider real operational factors,  
19 including: (1) CLEC use of self-provisioned switches to serve various groups of  
20 customers; and (2) how impairment varies geographically. I believe that applying these  
21 two key standards to CLEC facilities deployed in Missouri will yield the result that the  
22 individual SBC Missouri wire center is the appropriate geographic market for the mass  
23 market impairment analysis.

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96-98, *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, FCC 03-36, (rel. Aug. 21, 2003) (“*Triennial Review Order*”).

1 **IV. THE THRESHOLD BETWEEN ENTERPRISE AND MASS MARKET**

2 **Q. A LARGE PART OF THIS PROCEEDING INVOLVES THE PROVISIONING**  
3 **OF UNBUNDLED LOCAL SWITCHING TO MASS MARKET CUSTOMERS.**  
4 **HOW DOES SAGE DEFINE THE TERM "MASS MARKET"?**

5 A. Sage defines mass market as the base of customers served by any DSO/analog/voice  
6 grade loop.

7 **Q. HOW WOULD SAGE DEFINE THE TERM "ENTERPRISE MARKET?"**

8 A. Sage has no definition for the term "enterprise market" since we do not traditionally  
9 serve, nor do we actively market to, mid-sized or large business customers. Sage targets  
10 and serves exclusively mass market customers, *i.e.*, residential and small business  
11 customers whose premises are served through DS-0/voice grade level facilities. Most  
12 such customers purchase a single line; however, a few have multiple lines, although  
13 typically not more than five or six. However, for purposes of my testimony, you could  
14 say that "enterprise market" customers are those served by greater than DS-0/voice grade  
15 level facilities.

16 **Q. DID THE FCC DEFINE MASS MARKET IN THE TRIENNIAL REVIEW**  
17 **ORDER?**

18 A. Yes, the FCC stated:

19 Mass market customers consist of residential customers and very  
20 small business customers. Mass market customers typically  
21 purchase ordinary switched voice service (Plain Old Telephone  
22 Service or POTS) and a few vertical features. Some customers also  
23 purchase additional lines and/or high speed data services. Although  
24 the cost of serving each customer is low relative to the other  
25 customer classes, the low levels of revenue that customers tend to  
26 generate create tight profit margins in serving them. The tight  
27 profit margins, and the price sensitivity of these customers, force  
28 service providers to keep per customer costs at a minimum. Profits  
29 in serving these customers are very sensitive to administrative,

1 marketing, advertising, and customer care costs. These customers  
2 usually resist signing term contracts.<sup>3</sup>

3 In addition, the FCC noted that mass market is “defined as DS0” in the Executive  
4 Summary of the *Triennial Review Order*.<sup>4</sup>

5 **Q. IS SAGE’S DEFINITION CONSISTENT WITH THE FCC’S GUIDANCE ON**  
6 **THIS ISSUE?**

7 A. Yes, it is. In addition, the FCC’s definition clearly delineates Sage’s target market within  
8 suburban and certain rural and urban areas of Missouri.

9 **Q. DO YOU BELIEVE THAT ENTERPRISE MARKET FACILITIES SHOULD**  
10 **PLAY A ROLE IN THIS PROCEEDING?**

11 A. No, this proceeding should examine the provisioning of unbundled local switching  
12 exclusively to residential and small business customers whose premises are served  
13 through DS-0/voice grade level facilities -- in other words -- mass market customers as  
14 Sage defines them. It is interesting to note that even the FCC had some difficulty  
15 distinguishing between mass markets and enterprise markets in data gathering. The FCC  
16 noted in the *Triennial Review Order* that “[t]he data supplied do not generally distinguish  
17 between mass market and enterprise services, but they provide some clues about the state  
18 of competition in the mass market.”<sup>5</sup> This Commission must be vigilant and must take a  
19 microscopic view all evidence provided to ensure that data applicable to the enterprise  
20 market is not used to satisfy the triggers for the mass market impairment analyses and  
21 thereby ultimately harm Missouri consumers.

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<sup>3</sup> *Triennial Review Order*, ¶ 127.

<sup>4</sup> *Id.* at ¶ 7.

<sup>5</sup> *Id.* at fn. 120.

1 **Q. WHAT WOULD BE THE IMPACT OF MIXING ENTERPRISE AND MASS**  
2 **MARKET CUSTOMERS AND FACILITIES FOR PURPOSES OF THE MASS**  
3 **MARKET IMPAIRMENT ANALYSIS?**

4 A. Clearly, the inclusion of small and medium enterprise markets and, even worse large  
5 enterprise markets and facilities in an analysis of mass market impairment would skew  
6 the results, most likely to the detriment of the mass market providers, customers, and  
7 competition and possibly to the benefit of a few executives of CLECs that serve the  
8 enterprise market using facilities that they have placed in concentrated areas. There are  
9 definite consumer implications under any of these scenarios; therefore, the Commission  
10 should continue to take great care in evaluating possible consumer impacts at every stage  
11 of this proceeding.

12 **Q. WHY DO YOU BELIEVE THAT THE INCLUSION OF ENTERPRISE MARKET**  
13 **CUSTOMERS AND FACILITIES IN THE MASS MARKET IMPAIRMENT**  
14 **ANALYSIS WOULD SKEW THE RESULTS?**

15 A. Let me turn to the *Triennial Review Order* for assistance in this answer. In Paragraph  
16 128 of the *Triennial Review Order*, the FCC defines Small and Medium Enterprise  
17 customers as:

18 Small and medium enterprises are willing to pay higher prices for  
19 telecommunications services than the mass market. Indeed, they  
20 are often required to do so under business tariffs. Because their  
21 ability to do business may depend on their telecommunications  
22 networks, they are typically very sensitive to reliability and quality  
23 of service issues. These customers buy larger packages of services  
24 than do mass market customers, and are willing to sign term  
25 contracts. These packages may include POTS, data, call routing,  
26 and customized billing, among other services. Although serving  
27 these customers is more costly than mass market customers, the  
28 facts that enterprise customers generate higher revenues, and are  
29 more sensitive to the quality of service, generally allow for higher  
30 profit margins. The higher profit margins and greater emphasis on  
31 quality of service can provide a greater incentive to competing

1 carriers to provision their own facilities, and the higher revenues  
2 make it easier to cover the fixed costs of installing such facilities.<sup>6</sup>

3 In Paragraph 129 of the *Triennial Review Order*, the FCC defines Large  
4 Enterprise customers as:

5 Large enterprises demand extensive, sophisticated packages of  
6 services. Reliability of service is essential to these customers, and  
7 they often expect guarantees of service quality. The services they  
8 might purchase include an internal voice and data network, local,  
9 long distance, and international POTS service to one or multiple  
10 locations, provisioning and maintenance of a data network such as  
11 ATM, frame relay or X.25, and customized billing. The large  
12 revenues these customers generate, and their need for reliable  
13 service and specialized equipment to serve them, provide a large  
14 incentive to suppliers to build their own facilities where possible,  
15 and carry these customers' traffic over their own networks.<sup>7</sup>

16 Right in the definitions, the FCC has found that the larger the customer, the higher  
17 the incentive a competitive carrier has to "build [its] own facilities where possible, and  
18 carry these customers' traffic over their own networks." This incentive should mean that  
19 where Enterprise customers are being served by competitive carriers, there is a higher  
20 likelihood that the competitive carriers have built their own facilities and have their own  
21 switches. Thus, if Enterprise Market switches were counted toward the impairment  
22 triggers, the triggers would be more easily met. The FCC was clear that this should not  
23 be the case when it stated, in Paragraph 501 of the *Triennial Review Order*, that, for  
24 example, the Self Provisioning trigger is met "when three or more unaffiliated competing  
25 carriers each is *servicing mass market* customers in a particular market with the use of  
26 their own switches."

27 I cannot restate strongly enough the importance of this Commission being  
28 vigilant and taking a microscopic view of all evidence provided to ensure that data

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<sup>6</sup> *Id.* at ¶ 128.

1 applicable to the enterprise market is not used to satisfy the triggers for the mass market  
2 impairment analyses. Otherwise, mass market competition in Missouri may be  
3 unnecessarily and unjustifiably extinguished to the advantage of SBC and a few CLECs  
4 that serve only the enterprise market in concentrated areas.

5  
6 **V. CONCLUSION**

7 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

8 A. Sage is a CLEC utilizing UNE-P in order to provide service to a particular customer  
9 niche in Missouri –*suburban communities and some rural and urban areas*. Sage, its  
10 customers, and consumers in general have a vested interest in seeing that the  
11 Commission makes an accurate and complete analysis of the presumption of  
12 competitive impairment in mass market switching. To do so, the Commission must  
13 make a granular analysis based on focused and relevant geographic market areas, such  
14 as wire centers. Furthermore, in defining the appropriate market, the Commission  
15 should include all customers that are served by DS0/voice grade level loops,  
16 regardless of whether they are residential or small business customers, to be mass  
17 market customers.

18 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

19 A. Yes.

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<sup>7</sup> *Id.* at ¶ 129.