

A	B	C	D	E	F	G
	Total 10 Year Income Statement: data source is Net Income Total standard BACE report.		Bell South sales cost with Sprint's other cumulative changes	Sprint cumulative changes: Scenario 11	Sprint cumulative scenario 11 with decrease in enterprise sales cost	Sprint cumulative scenario 11 with decrease in mass market sales cost
10	Net Income - Total					
11	Net Revenues		3,270,710,325	3,270,710,325	3,270,710,325	3,270,710,325
12	Operating Expenses					
13		Opex/Mtce	20,818,154	20,818,154	20,818,154	20,818,154
14		COGS	1,583,287,069	1,583,287,069	1,583,287,069	1,583,287,069
15		Sales	242,009,931	482,156,463	378,273,495	288,750,117
16		G&A	770,785,814	770,785,814	770,785,814	770,785,814
17	Taxes Other than Income Taxes		14,406,094	14,406,094	14,406,094	14,406,094
18	EBITDA		639,403,262	399,256,730	503,139,699	592,663,077
19	Depreciation (Book Basis) Expense		177,376,325	177,376,325	177,376,325	177,376,325
20	Interest Expenses		18,067,601	18,067,601	18,067,601	18,067,601
21	Pre Tax Income		443,959,336	203,812,804	307,695,773	397,219,151
22	Income Taxes		178,851,119	86,214,595	126,287,450	160,821,093
23	Net Income		265,108,217	117,598,210	181,408,323	236,398,058

A	B	C	D	E	F	G
	10-Year NPV: data source is CEA UNEZone standard BACE report.		Bell South sales cost with Sprint's other cumulative changes	Sprint cumulative changes: Scenario 11	Sprint cumulative scenario 11 with decrease in enterprise sales cost	Sprint cumulative scenario 11 with decrease in mass market sales cost
26	Pre-tax NPV					
27		NPV for Mass Market	(16,197,393) (1a)	(103,505,595)	(103,505,595)	(3,584,825)
28		NPV for Enterprise	47,486,823 (2a)	10,277,675	67,729,593	10,277,675
29		Net Present Value Total	31,289,430	(93,227,921)	(35,776,002)	6,692,849
30	Est Taxes NPV					
31		NPV for Mass Market	33,478,317	(30,119,984)	(123,609,988)	30,391,799
32		NPV for Enterprise	(98,150,295)	2,990,789	80,885,040	(87,133,124)
33		Net Present Value Total	(64,671,979)	(27,129,195)	(42,724,949)	(56,741,325)
34	After-tax NPV					
35		NPV for Mass Market	17,280,924 (1b)	(133,625,579) (1c)	(227,115,584) (1d)	26,806,974
36		NPV for Enterprise	(50,663,472) (2b)	13,268,463 (2c)	148,614,633	(76,855,450) (2d)
37		Net Present Value Total	(33,382,549)	(120,357,116)	(78,500,951)	(50,048,475)

A	B	C	D	E	F	G
	Sales Cost Change		Sales Cost Inputs - Bell South	Sales Cost Inputs - Sprint Scenario 11	Sales Cost Inputs - Decrease Enterprise	Sales Cost Inputs - Decrease Mass Market
41		Residential (Mass Market)				
42		SOHO (Mass Market)				
43		SME/A (Enterprise)				
44		SME/B (Enterprise)				
45		SME/C (Enterprise)				

Notes:

- (1a) & (1b) Mass Market 10-year NPV changes from a negative value (pre-tax) to a positive value (post-tax).
- (2a) & (2b) Enterprise 10-year NPV changes from a positive value (pre-tax) to a negative value (post-tax).
- (2c) Enterprise 10-year NPV turns positive, although sales costs have increased (in comparison to Col. D).
- (1c) A pre-tax NPV increase in sales cost for Mass Market of \$87,308,203, results in an after-tax negative NPV change of almost double that amount.
- (1d) With no input changes to Mass Market, the 10-year post-tax NPV decreases by almost \$100,000,000 (comparison to Col. E).
- (2d) With no input changes to Enterprise (in comparison to Col. E), the 10-year post-tax NPV decreases by almost \$90,000,000.

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A	B	C	D	E	F	G
	Total 10 Year Income Statement: data source is NetIncome Total standard BACE report.	Bell South sales cost with Sprint's other cumulative changes	Sprint cumulative changes: Scenario 11	Sprint cumulative scenario 11 with decrease in enterprise sales cost	Sprint cumulative scenario 11 with decrease in mass market sales cost	
10	NetIncome-Total					
11	Net Revenues	3,259,043,504	3,259,043,504	3,259,043,504	3,259,043,504	
12	Operating Expenses					
13	Opex/Mtce	18,766,541	18,766,541	18,766,541	18,766,541	
14	COGS	1,617,683,767	1,617,683,767	1,617,683,767	1,617,683,767	
15	Sales	242,226,204	482,504,341	378,416,905	289,084,745	
16	G&A	767,280,054	767,280,054	767,280,054	767,280,054	
17	Taxes Other than Income Taxes	14,016,279	14,016,279	14,016,279	14,016,279	
18	EBITDA	599,070,658	358,792,521	462,879,956	552,212,117	
19	Depreciation (Book Basis) Expense	169,969,371	169,969,371	169,969,371	169,969,371	
20	Interest Expenses	17,572,780	17,572,780	17,572,780	17,572,780	
21	PreTax Income	411,528,506	171,250,369	275,337,805	364,669,965	
22	Income Taxes	166,099,992	73,412,701	113,564,429	148,024,310	
23	Net Income	245,428,514	97,837,668	161,773,375	216,645,655	

A	B	C	D	E	F	G
	10-Year NPV: data source is CEA UNEZone standard BACE report.	Bell South sales cost with Sprint's other cumulative changes	Sprint cumulative changes: Scenario 11	Sprint cumulative scenario 11 with decrease in enterprise sales cost	Sprint cumulative scenario 11 with decrease in mass market sales cost	
26	Pre-tax NPV					
27	NPV for Mass Market	(25,161,287) (1a)	(112,471,576)	(112,471,576)	(12,543,568)	
28	NPV for Enterprise	43,993,504 (2a)	6,712,792	64,284,344	6,712,792	
29	Net Present Value Total	18,832,217	(105,758,785)	(48,187,233)	(5,830,776)	
30						
31	Est Taxes NPV					
32	NPV for Mass Market	79,585,555	(23,984,321)	(88,405,374)	(111,041,691)	
33	NPV for Enterprise	(139,152,161)	1,431,488	50,529,046	59,424,860	
34	Net Present Value Total	(59,566,606)	(22,552,832)	(37,876,328)	(51,616,831)	
35						
36	After-tax NPV					
37	NPV for Mass Market	54,424,268 (1b)	(136,455,897) (1c)	(200,876,950) (1d)	(123,585,259)	
38	NPV for Enterprise	(95,158,656) (2b)	8,144,280 (2c)	114,813,390	66,137,652 (2d)	
39	Net Present Value Total	(40,734,389)	(128,311,617)	(86,063,561)	(57,447,607)	

A	B	C	D	E	F	G
	Sales Cost Change	Sales Cost Inputs - Bell South	Sales Cost Inputs - Sprint Scenario 11	Sales Cost Inputs - Decrease Enterprise	Sales Cost Inputs - Decrease Mass Market	
41						
42	Residential (Mass Market)					
43	SOHO (Mass Market)					
44	SME/A (Enterprise)					
45	SME/B (Enterprise)					
46	SME/C (Enterprise)					

Notes:

- (1a) & (1b) Mass Market 10-year NPV changes from a negative value (pre-tax) to a positive value (post-tax).
- (2a) & (2b) Enterprise 10-year NPV changes from a positive value (pre-tax) to a negative value (post-tax).
- (2c) Enterprise 10-year NPV turns positive, although sales costs have increased (in comparison to Col. D).
- (1c) A pre-tax NPV increase in sales cost for Mass Market of \$87,310,289, results in an after-tax negative NPV change of over double that amount.
- (1d) With no input changes to Mass Market, the 10-year post-tax NPV decreases by \$64,421,053
- (2d) With no input changes to Enterprise (in comparison to Col. E), the 10-year post-tax NPV increases by \$57,993,372

1 **Q. Looking first at Exhibit KWD-4 “Summary of Collocation Build Out NPV**  
2 **Differences”, please explain your analysis and conclusion.**

3 A. Column b titled “BACE Calc of ColloBuildOut NPVs” shows the CLEC  
4 collocation build-out cost estimates contained in BellSouth’s filing for 6 randomly  
5 selected Central Office Collocations. I would first note that the BACE Model  
6 cost estimates in column b for the [REDACTED] wire center of [REDACTED] show only a  
7 [REDACTED] increase over the cost estimate of [REDACTED] for the wire center [REDACTED].  
8 This despite the fact that the [REDACTED] CLEC DSO lines served in wire center  
9 [REDACTED] exceed the [REDACTED] CLEC DSO lines served in wire center [REDACTED]  
10 by a factor of 51 times. As line quantities at a specific CO collocation increase, a  
11 CLEC must deploy more equipment giving rise to increases in collocation floor  
12 space requirements and even greater increases in DC power quantity  
13 requirements. This then results in increased monthly floor space preparation  
14 charges from the ILEC and increased DC power cable installation costs. DC  
15 power cable installation costs are a very material portion of overall collocation  
16 build-out costs and the lack of variability in the BACE Model collocation build-  
17 out costs to lines served is immediately suspect and cause for investigation.

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18  
19 **Q. Were you able to examine the specific BACE Model calculations used to**  
20 **generate the figures in column b?**

21 A. No, once again these important calculations are not visible to the external user.  
22 However, according to documentation in the BACE Model, the ColloBuildOut  
23 cost center includes cable record requests, space availability reports, space prep  
24 charges, applications, and security charges. The BACE Model documentation  
25 makes no mention of DC power cabling costs and, based on the dramatically

1 CLEC collocation sites having inadequate DC Power and associated understated  
2 costs. This is caused by the BellSouth modeled DSO line demand for 82% of all  
3 CLEC collocation sites exceeding 1,056 lines (which is all that can be served with  
4 BellSouth's assumed 60 amps of DC Power). Comparing Sprint's externally  
5 computed NPV of DC power costs to that of the BACE model shows the dramatic  
6 198% understatement of BellSouth's estimated DC power costs. I would note  
7 that the actual understatement of BellSouth's cost estimate exceeds the amount on  
8 this schedule as Sprint's DC-power requirement reflects only the power required  
9 to serve the DSO line demand in BellSouth's filing. The additional DC power  
10 required to serve DSI and DSL CLEC demand is not included in Sprint's DC  
11 power requirements and would increase the amount of understatement in  
12 BellSouth's cost estimate.

13  
14 **BACE Model Expense Estimates**

15  
16 **Q. Are there other areas of BellSouth's base case that appear unrealistic and**  
17 **inconsistent with a real world startup CLEC?**

18 A. Yes, I find the area of G&A expenses contained in BellSouth's filing to be highly  
19 suspect and unsupported in several respects. This category of operating expense  
20 accounts makes up [REDACTED] or [REDACTED] of the total CLEC operating expenses  
21 and yet BellSouth's filing contains not a single workpaper supporting this expense  
22 input assumption. Rather at page 35 of her testimony, Dr. Aron offers a meager  
23 discussion of G&A costs which she characterizes as "... relate to the overall  
24 management of the firm (such as executive, legal, human resources , and the  
25 like)." She goes on to mention a mapping of these costs which she fails to

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1 provide with her testimony but claims to have used to "... harmonize ILEC data  
2 with general CLEC accounting practices." Later at page 40 of her testimony, she  
3 references the use of 1992-2002 ARMIS reporting company data to perform a "...  
4 'weighted regression' to determine the linear relationship between G&A and  
5 revenue", resulting in the [REDACTED] percent of revenue factor being used to predict the  
6 [REDACTED] in operating expenses labeled as G&A in BellSouth's filing. As was the  
7 case with her "account mapping" and "harmonizing of ILEC and CLEC account  
8 structures"; Dr. Aron did not provide any of her referenced analysis with her  
9 testimony and thus I have been unable to examine it further.

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10  
11 **Q. Does BellSouth's filing contain any other discussion or evidence supporting**  
12 **this [REDACTED] CLEC operating expense estimate which comprises [REDACTED] of total**  
13 **operating expenses?**

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14 A. No.

15  
16 **Q. Is BellSouth's method of estimating CLEC G&A expenses reasonable?**

17 A. No, quite the opposite. BellSouth's approach to predicting CLEC G&A expenses  
18 during all phases of startup operations assumes they are perfectly scaleable to  
19 revenues. Dr. Aron in effect proposes to estimate CLEC G&A expenses as  
20 though they are a direct variable cost of sales. This approach is counter intuitive  
21 when dealing with this most classic of the common cost categories. Were Dr.  
22 Aron's suggestion true in the real world then we should see firms with no sales  
23 also have zero G&A costs. Further, G&A costs would perfectly double in lock  
24 step as revenues doubled and yet we see neither of these conditions in real world  
25 data. While it would be indeed wonderful if CLECs could somehow perfectly

1 manage G&A costs so to perfectly correlate to sales growths or declines, the fact  
2 is they bear no direct linear relationship to sales growth or decline. In fact, the  
3 G&A expenses referenced in Dr. Aron's testimony are a classic example of an  
4 expense category where large firms typically enjoy considerable economies of  
5 scale versus smaller firms. This would be all the more true of the CLEC startup  
6 venture that the BACE model purports to depict. It would be hard to select a  
7 more polar opposite to CLEC startup ventures than the largest established ILEC  
8 companies in America underlying the ARMIS data Dr. Aron relies upon in her  
9 referenced but unseen "weighted regression" analysis. It would also be difficult  
10 to select a more defective method of G&A cost estimation than the perfectly  
11 scaleable to revenues assumption used in BellSouth's BACE model results. The  
12 intuitively unsound approach used by BellSouth to estimate █████ of total  
13 operating expenses suggests that BellSouth's claim of CLEC non-impairment  
14 fails on this single issue alone.

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15  
16 **Q. Can you suggest a correction to BellSouth's G&A expenses?**

17 A. No, not at this time. The essentially complete lack of detail in BellSouth's filing  
18 regarding what specific expenses this █████ of total expense category is attempting  
19 to predict makes any corrections, at this time, pure guesswork.

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20  
21 **Q. Have you been able to validate the Operations/Maintenance and/or the Cost  
22 of Goods Sold expense estimates in BellSouth's filing?**

23 A. No. These expense estimates also suffer from an equally dismal quantity and  
24 quality of detail, description, and support in BellSouth's filing. This coupled with  
25 the hidden tables and BACE model calculations make a complete review of

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1 that switch technology at the end of year 10 of an 11 year economic life cannot be  
2 sold at all. Rather, it is in all likelihood, a severely outdated technology which  
3 real world economics suggest will likely generate a negative cost of removal and  
4 no cash sales value were the CLEC to discontinue operations at the end of year  
5 10.

6  
7 **Q. Please describe Scenario 10 "Sprint Base Case: Adjust Bad Debt" of Exhibit**

8 **KWD-6 (Revised 2/12/04).**

9 A. Scenario 10 "Sprint Base Case: Adjust Bad Debt" reflects the quantification of  
10 replacing the Bad Debt assumption of █████ of revenues for all years contained  
11 in BellSouth's filing with a conservative level of Bad Debt more consistent with  
12 Sprint's actual CLEC and Long Distance experience. More specifically, Sprint's  
13 Scenario 10 uses a Bad Debt expense factor of 10% for year 1 improving to 6%  
14 for year 2 and 5% for years 3 through 10. These Sprint proposed values assume  
15 substantial improvement in the actual bad debt expense experienced by Sprint's  
16 Mass Market CLEC ventures to date. The effect of Scenario 10 using Sprint's  
17 more realistic Bad Debt estimate is to reduce the NPV of cash flows from Sprint's  
18 base case Scenario 2 by \$53,434,146.

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19  
20 **Q. Please describe Scenario 11 "Sprint Scenarios 2 – 10 Cumulative Changes".**

21 A. Sprint Scenario 11 reflects the cumulative effect of including all of Sprint's  
22 corrections to BellSouth's base case (Scenarios 2 through 10) in a single run. The  
23 cumulative NPV of cash flows resulting from these corrections is a negative  
24 \$136,455,897, which is a reduction of \$444,422,035 from the BellSouth base case  
25 scenario. I would emphasize this cumulative result does not and cannot

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1 incorporate corrections to all of the areas of concern I discuss in this testimony. It  
2 does not, for example, include necessary corrections to the erroneous approach to  
3 G&A expense estimation nor collocation build-out or DC power consumption  
4 costs discussed elsewhere in this testimony. Additionally, it leaves yet  
5 invalidated all of the extensive calculation routines and associated inputs that  
6 BellSouth has excluded from review and validation.

7  
8 Despite the significant areas which I was unable to correct in BellSouth's filing,  
9 Exhibit KWD-6 (Revised 2/12/04) nonetheless supports the opposite conclusion  
10 asserted by BellSouth witness Dr. Aron. Rather, Exhibit KWD-6 (Revised  
11 2/12/04) demonstrates the unworkable economics of a CLEC serving Mass  
12 Market customers using self-provisioned switches from day one of market entry.  
13 As discussed in Dr. Staihr's testimony, this substantial cumulative negative NPV  
14 of cash flow values is consistent with real world CLEC results evidenced over the  
15 seven, going on eight, years since the passage of the 1996 Telecommunications  
16 Act.

17  
18 **Q. Have you performed any other independent validation of BellSouth's BACE**  
19 **model results used to support Dr. Aron's claims of non-impairment?**

20 A. Yes. I have prepared a Net Present Value analysis of the cash flows produced by  
21 the BACE model results contained in BellSouth's filing and the results are shown  
22 in Exhibit KWD-8. As shown, the net present value of each yearly net cash flow  
23 was calculated using the discount rate which generated an overall net present  
24 value of zero for the 10-year planning period. This discount rate of [REDACTED] is, by  
25 definition, the internal rate of return (IRR) on this project. In other words, this is



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1 the rate of return that a competitor entering BellSouth's territory in Florida  
2 (utilizing UNE loops and self-provisioned switching) should be expected to earn  
3 while providing competitive telephone service, if the assumptions in the BACE  
4 model are correct. This rate of [REDACTED] far exceeds the weighted average cost of  
5 capital of 13.09% for a "representative CLEC" as calculated and described in  
6 BellSouth witness Dr. Billingsley's testimony and used in the BellSouth inputs to  
7 the BACE model. Given Dr. Billingsley's comments that "many [CLECs] have  
8 declared bankruptcy over the last two years and a significant number of the others  
9 operate under severe financial distress"<sup>9</sup> and that "CLECs as a whole continue to  
10 demonstrate some degree of financial instability",<sup>10</sup> it seems unfathomable that  
11 any local telephone competitors are currently achieving such rates of return or  
12 will achieve such rates in the future. Also, while not an exact comparison, the  
13 [REDACTED] IRR is well above BellSouth's own reported return on total capital for the  
14 periods of 1999-2002 (which ranged from 9.9% to 16.3% when the effect of the  
15 change in accounting principle in 2002 is excluded). Since a given CLEC will not  
16 have the economies of scale and scope available to BellSouth, it seems  
17 unreasonable to suggest that any CLEC will be able to generate rates of return two  
18 to three times higher than BellSouth's own reported return on total capital.

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19  
20 **Q. Does this conclude your rebuttal testimony?**

21 A. Yes.

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<sup>9</sup> Direct Testimony of Randall Billingsley, December 4, 2003, p. 3.  
<sup>10</sup> Direct Testimony of Randall Billingsley, December 4, 2003, p. 10.

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1 MSAs are the more rural areas. If Dr. Pleatsikas believes that actual customer  
2 locations are found more often in UNE Zones 1 and 2 than in UNE Zone 3 that fact  
3 could be viewed as justification for separating UNE Zones 1 and 2 *collectively*  
4 from UNE Zone 3, which is what an MSA-based definition tends to do. But his  
5 reference to customer location provides no justification for separating UNE Zone 1  
6 from UNE Zone 2.

7  
8 Next, Dr. Pleatsikas states that variation in cost is an important factor in  
9 determining where a CLEC can serve (Pleatsikas Direct page 5). Clearly loop costs  
10 vary for a competitor depending on which wire center the competitor is entering.  
11 But the question that must be asked is whether there is any evidence that this  
12 variation in loop costs, particularly between UNE Zones 1 and 2, actually has an  
13 effect on competitive entry. For example, according to BellSouth's BACE Model  
14 the Fort Lauderdale Zone 1 market is made up of nine wire centers. And according  
15 to data filed by BellSouth with the Commission there is competitive entry (and  
16 unbundled loops) in [REDACTED] of the nine.<sup>1</sup> In the Fort Lauderdale Zone 2 market there  
17 are also nine wire centers, and there is competitive entry (and unbundled loops) in  
18 [REDACTED]. And according to BellSouth's filing there are actually more CLECs  
19 competing in Fort Lauderdale Zone 2 than in Fort Lauderdale Zone 1.  
20 Furthermore, every competitor that has entered Fort Lauderdale Zone 1 has also  
21 entered Fort Lauderdale Zone 2. These facts, when examined, do not provide  
22 support for the notion that the higher loop costs in Zone 2 have an effect on entry,  
23 nor do they support the notion that competitors view Fort Lauderdale Zones 1 and 2

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<sup>1</sup> See BellSouth response to Sprint interrogatories.

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1 A. There is indeed additional evidence, produced as a result of the Commission Staff's  
2 data requests, detailing the numbers of mass market customers served by the self-  
3 provisioning CLECs identified by Ms. Tipton in her testimony. This evidence is in  
4 various forms and in various stages of completeness, and so one must make careful  
5 assumptions when attempting to use the data to discern measures such as the extent  
6 of competition in a market. But with this caveat in mind, the data can be used to  
7 investigate issues such as whether the identified CLECs really do provide evidence  
8 of the technical and economic feasibility of an entrant serving the mass market, as  
9 Ms. Tipton has defined it.

10  
11 For example, Ms. Tipton lists ██████ as one of the self-provisioning CLECs that  
12 meets the trigger for BellSouth's Pensacola Zone 2 market. The Pensacola Zone 2  
13 market is made up of six BellSouth wire centers. According to data filed with the  
14 Commission by ██████, ██████ does operate ██████ switches that serve customers in  
15 BellSouth's territory. And one of those switches, identified in the LERG as  
16 ██████, appears to provide various forms of service—overwhelmingly to  
17 larger business customers—in about ██████ BellSouth wire centers including  
18 the six wire centers that make up Ms. Tipton's Pensacola Zone 2 market. The data  
19 provided by ██████ did not identify how many customers the company actually had  
20 in each of the ██████ wire centers; it only identified the total number of customers  
21 served by that switch. So the information provided by ██████ does not confirm or  
22 deny the existence of mass market customers specifically in the Pensacola Zone 2  
23 market. But the information is useful nonetheless because the data reveals that the  
24 total number of mass market customers—as defined by BellSouth—served by

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1 [REDACTED] out of that switch is exactly [REDACTED] customers. And none of these  
2 customers are residential customers (this is addressed in more detail below). So at  
3 best, if those [REDACTED] customers happen to be located in the six wire centers that  
4 make up the Pensacola Zone 2 market, [REDACTED] is serving exactly [REDACTED] mass market  
5 customers in BellSouth's Pensacola Zone 2 market, and at worst it is serving zero.  
6 According to data provided by BellSouth there are over [REDACTED] mass market  
7 customers in the Pensacola Zone 2 market.<sup>10</sup> This suggests that, again as an  
8 absolute upper bound, [REDACTED] has achieved a market penetration of [REDACTED]  
9 [REDACTED]

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11 The reason this information is useful is because, as discussed in my direct  
12 testimony, the FCC was well aware that CLECs can manage to serve some mass  
13 market customers off of what are otherwise enterprise switches.<sup>11</sup> But this situation  
14 was not enough for the FCC to find an absence of impairment, and it appears that  
15 this is the exact situation we find with [REDACTED] in BellSouth's Pensacola Zone 2  
16 market. [REDACTED] also provided data regarding the utilized capacity of the switch in  
17 question, as measured in voice-grade equivalents, and the data shows that less than  
18 [REDACTED] of the utilized capacity of this switch is used  
19 to serve mass market customers.

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21 Another way of examining the issue of "how much" of the market is served by the  
22 identified CLECs is to look at whether there are entire customer groups who are not  
23 being served. Specifically, it is worthwhile to examine whether the CLECs

<sup>10</sup> Data taken from BellSouth responses to Sprint's interrogatories.  
<sup>11</sup> TRP paragraph 441.

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1 identified by Ms. Tipton are limiting themselves to serving only the business  
2 portion of the mass market, and subsequently ignoring the residential market. The  
3 TRO is extremely clear that the mass market is made up of both residential and  
4 small business customers.<sup>12</sup> If the CLECs identified by Ms. Tipton subdivide the  
5 mass market and only offer service to business customers, then the Commission  
6 should seriously question whether the evidence presented adequately demonstrates  
7 the technical and economic feasibility of an entrant serving the mass market.

8  
9 **Q.** Is there evidence that any of the CLECs identified by Ms. Tipton have, in fact,  
10 subdivided the mass market and are only serving business customers?

11 **A.** Yes. Turning again to the data provided in response to the Commission Staff's  
12 requests, we find that several companies have apparently subdivided the market and  
13 are only providing service to businesses. These include such companies as [REDACTED]  
14 [REDACTED] (listed as a trigger-meeting CLEC in Fort Lauderdale, Miami, Jacksonville  
15 and West Palm Beach), [REDACTED] (listed as a trigger-meeting CLEC in Fort  
16 Lauderdale, Miami and West Palm Beach), [REDACTED] (listed as a trigger-meeting  
17 CLEC in Fort Lauderdale and Jacksonville), and [REDACTED] (listed as a trigger-meeting  
18 CLEC in Daytona Beach and Pensacola).

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19  
20 It is certainly not surprising that many of BellSouth's proposed CLECs limit their  
21 service offerings to the business market. As the TRO itself indicates, business  
22 customers "usually pay higher retail rates, and may be more likely to purchase  
23 additional services such as multiple lines, vertical features, data services and yellow

<sup>12</sup> TRO paragraph 127.

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1 It is worth noting that in the TRO, the descriptions of the *intent* of the trigger  
2 analysis and the *intent* of the potential deployment analysis are extremely  
3 consistent. As stated above, the triggers are intended to provide evidence of “the  
4 technical and economic feasibility of an entrant serving the mass market with its  
5 own switch”.<sup>14</sup> The potential deployment analysis is intended to show “whether a  
6 competing carrier could economically serve the market without access to the  
7 incumbent’s switch”.<sup>15</sup> And, as the TRO also states, “the market” is the same in  
8 both cases. If BellSouth believes that serving “the market” is more than selectively  
9 serving a handful of business customers (as it clearly does in its potential  
10 deployment analysis) it must also believe that for its trigger analysis.

11  
12 **Q.** Aside from the question of “how much” of a market is actually being served, did  
13 Ms. Tipton provide evidence in her testimony as to how much of the market the  
14 proposed CLECs are even capable of serving?

15 **A.** No. But again, there is additional evidence that can be gleaned from the data  
16 provided to the Commission Staff to help address this issue. For example,  
17 BellSouth lists █████ as a trigger-meeting CLEC in the Jacksonville Zone 2 market.  
18 As defined by BellSouth, the Jacksonville Zone 2 market consists of seventeen wire  
19 centers. But according to information filed by █████ with Commission staff, █████  
20 provides service in only █████ of the seventeen wire centers. Similarly BellSouth  
21 lists █████ as a trigger-meeting CLEC in the same Jacksonville Zone 2 market, but  
22 according to data that █████ provided to the Commission, █████ does not provide

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<sup>14</sup> TRO paragraph 501.

<sup>15</sup> TRO paragraph 517.

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1 service in *any* of the seventeen wire centers that make up the Jacksonville Zone 2  
2 market.

3 **Q.** Based on the testimony of Ms. Tipton, and the data provided to the Commission  
4 Staff, should we conclude at this time that BellSouth has met the triggers in the  
5 markets identified in Ms. Tipton's testimony?

6 **A.** No. The data provided to Commission Staff raises far more questions than it  
7 answers regarding whether the companies identified by Ms. Tipton demonstrate the  
8 technical and economic feasibility of an entrant serving the market with its own  
9 switch. In some cases (████ and Jacksonville Zone 2) the entrant does not appear  
10 to be serving the market at all. In other cases (████ and Pensacola Zone 2) the  
11 entrant is serving such a miniscule portion of the market (████████████████████, if that  
12 much) that this says nothing about the feasibility of serving the market. In still  
13 other cases (████████ in Fort Lauderdale) the entrant has subdivided the market and  
14 is serving only the business portion. For the Commission to conclude that barriers  
15 to entry in the mass market have been overcome, based on such questionable  
16 evidence, would be a mistake.

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17  
18 **Optimization in the BellSouth Analysis of Competitive Entry (BACE) Model and the**

19 **Testimony of Mr. James Stegeman**

20  
21 **Q.** In the testimony of BellSouth witness Mr. James Stegeman, he describes the  
22 various forms of optimization that take place in the BACE Model. Please comment  
23 on these optimization procedures.