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ORIGINAL

October 23, 2002

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COMMISSION
CLERK

Mrs. Blanca S. Bayó
Director, Division of the Commission
Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: **Docket No. 020119-TP**
Petition of Florida Digital Network, Inc. for Expedited Review and Cancellation of BellSouth Telecommunications, Inc.'s Key Customer Promotional Tariffs and For an Investigation of BellSouth Telecommunications, Inc.'s Promotional Pricing and Marketing Practices

Docket No.: 020578-TP
Petition for Expedited Review and Cancellation of BellSouth Telecommunications, Inc.'s Key Customer Promotional Tariffs

Dear Ms. Bayó:

Enclosed is an original and fifteen copies of BellSouth Telecommunications, Inc.'s Direct Testimony of E. Steven Bigelow, John P. Casey, Carlos Garcia, W. Bernard Shell, John Ruscilli, and William E. Taylor, Ph.D., which we ask that you file in the captioned dockets.

Docket 11581-02 thru 11585-02, 11594-02

A copy of this letter is enclosed. Please mark it to indicate that the original was filed and return a copy to me. Copies have been served to the parties shown on the attached certificate of service.

Sincerely,

Patrick W. Turner /mrs

Patrick W. Turner

- AUS _____
- CAF _____
- CMP _____
- COM _____
- CTR _____
- ECR _____
- GCL cc: All Parties of Record
- OPC _____ Marshall M. Criser III
- MMS WATTS R. Douglas Lackey
- SEC _____
- OTH Leah Nancy B. White

Enclosures

RECEIVED & FILED

Man
FPSC-BUREAU OF RECORDS

**CERTIFICATE OF SERVICE
DOCKET NO. 020119-TP and 020578-TP**

I HEREBY CERTIFY that a true and correct copy of the foregoing was served via Electronic Mail and U. S. Mail this 23rd day of October 2002 to the following:

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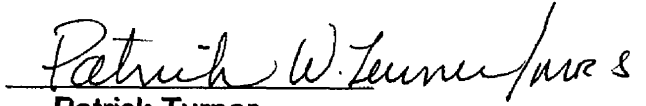
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nedwards@itcdeltacom.com


Patrick Turner

(+) Signed Protective Agreement

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BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF JOHN P. CASEY
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NOS. 020119-TP and 020578-TP
OCTOBER 23, 2002

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. ("BELLSOUTH") AND YOUR BUSINESS ADDRESS.

A. My name is John P. Casey. I am currently employed by BellSouth as a Pricing Manager in the Strategic Pricing Organization. My business address is 2180 Lake Boulevard Atlanta, Georgia 30319.

Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND AND EXPERIENCE.

A. I graduated from the University of Georgia in 1996 with a Bachelor of Arts Degree. In November of that year, I began working for BellSouth Public Communications, and I joined the BellSouth Pricing Organization in 1998. In August of 2001, I assumed my current position within the Strategic Pricing Organization as a Product Pricing Manager with various responsibilities related to the development and implementation of pricing strategies for BellSouth's business voice portfolio.

1 *Issue 3A(i): Is the BellSouth Key Customer tariff filing (Tariff Number T-020035)¹*
2 *unfair, anticompetitive, or discriminatory under the criteria, if any, established*
3 *pursuant to this issue?*

4

5 *Issue 3A(ii): Is the BellSouth Key Customer tariff filing (Tariff Number T-020595² or*
6 *subsequent tariff filing that extends the expiration date thereof) unfair,*
7 *anticompetitive, or discriminatory under the criteria, if any, established pursuant to*
8 *this issue?*

9

10

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12

13 A. The purpose of my testimony is to explain how BellSouth determined the
14 termination liability terms and conditions for the January and June Key Customer
15 offerings.

16

17 Q. AS OF THE DATE A CUSTOMER SIGNS A JANUARY KEY CUSTOMER
18 CONTRACT OR A JUNE KEY CUSTOMER CONTRACT, CAN
19 BELLSOUTH READILY ASCERTAIN THE DAMAGES BELLSOUTH WILL
20 SUFFER IF THAT CUSTOMER TERMINATES THE CONTRACT PRIOR TO
21 ITS EXPIRATION?

22

23 A. No.

24 ¹ Throughout my testimony, I will refer to this offering as the “January Key
25 Customer Offering.”

² Throughout my testimony, I will refer to this offering as the “June Key Customer
Offering.”

1 Q. WHY NOT?

2

3 A. Basically a customer is eligible to participate under these tariffs when the
4 customer commits to spending a minimum amount of money each month with
5 BellSouth. However, once this minimum threshold is reached, the customer
6 continues to receive additional benefits (in the form of a larger amount of credit or
7 reward) as the customer adds additional eligible services. Similarly, the customer
8 could drop services, which could result in less benefits (in the form of a smaller
9 amount of credit or reward) for the customer, but as long as the customer meets
10 the minimum revenue commitment the customer made, the customer will
11 continue to receive Key Customer benefits for the remaining services. The point
12 is that the customer determines its spending throughout the term of the Key
13 Customer plan, and BellSouth cannot, at the initiation of the contract, accurately
14 estimate the benefits the customer will receive under the contract, nor the
15 damages that BellSouth will suffer if the custom terminates the contract
16 inappropriately. This difficulty in estimating damages is, of course, compounded
17 by the fact that different Key-eligible services have different prices, costs, and
18 margins. Thus, the margin BellSouth realizes from a customer that spends \$1,000
19 on one set of Key-eligible services can vary significantly from the margin that
20 BellSouth realizes from a customer that spends \$1,000 on a different set of Key-
21 eligible services. It is therefore very difficult, if not impossible, to ascertain the
22 damages BellSouth will suffer if a given customer terminates its January or June
23 Key Customer contract before that contract expires.

24

25

1 Q. WHAT ARE THE TERMINATION LIABILITY TERMS AND CONDITIONS
2 IN THE JANUARY 2002 KEY CUSTOMER OFFERING?

3

4 A. If a customer terminates its January Key Customer contract before the contract
5 expires, the contract provides that the customer must pay an amount equal to: the
6 discounts the customer has received under its January Key Customer contract up
7 to the date of termination; and a \$100 charge. This \$100 charge represents
8 incremental costs of administration and acquisition that are specific to the January
9 Key Customer offering. BellSouth's anticipated recovery of these costs are
10 spread over the term of the contract and, therefore, if the customer does not
11 complete the term of the contract it signed, these costs have been incurred by
12 BellSouth but not recovered.

13

14 Q. WERE THESE TERMINATION LIABILITY TERMS AND CONDITIONS
15 MADE CLEAR TO CUSTOMERS WHO SIGNED A CONTRACT UNDER
16 THE JANUARY KEY CUSTOMER OFFERING?

17

18 A. Yes. Exhibit JPC -1 is a copy of the contract that customers sign under the
19 January Key Customer offering. Paragraph five clearly sets forth these
20 termination liability terms and conditions.

21

22 Q. PLEASE EXPLAIN HOW BELLSOUTH DETERMINED THE
23 TERMINATION LIABILITY TERMS AND CONDITIONS FOR THE
24 JANUARY KEY CUSTOMER OFFERING.

25

1 A. By repaying the discounts received up to the date of termination, the customer
2 returns the benefits that BellSouth would not have provided to the customer had it
3 not entered into the contract that it ultimately breached. BellSouth, therefore, is
4 placed in the position it would have occupied had it charged the standard tariffed
5 rates for the services it provided to the customer under that contract.

6
7 Similarly, the \$100 charge represents administrative and acquisition costs
8 BellSouth incurs when it does things such as contacting the customer, explaining
9 the contract's terms and conditions, assisting the customer in executing the
10 contract, and processing the executed contract. The \$100 charge also includes a
11 component for sales incentives that are paid to the different sales organizations for
12 each executed contract, which BellSouth does not require the sales organizations
13 to repay in the event the customer terminates. These are costs that BellSouth
14 would not have incurred had the customer not entered into the contract that it
15 ultimately breached.

16

17 Q. DOES THE JUNE KEY CUSTOMER OFFERING CONTAIN THESE SAME
18 TERMINATION LIABILITY TERMS AND CONDITIONS?

19

20 A. No. While the June Key Customer offering contains termination liability terms
21 and conditions, they are different than the ones contained in the January Key
22 Customer offering.

23

24

25

1 Q. WHY ARE THE TERMINATION LIABILITY TERMS AND CONDITIONS IN
2 THE JUNE KEY CUSTOMER OFFERING DIFFERENT THAN THOSE IN
3 THE JANUARY KEY CUSTOMER OFFERING?

4

5 A. The termination liability terms and conditions in the January Key Customer
6 offering were designed to put BellSouth, at least to some degree, in the position it
7 would have been in had the customer never entered the contract it ultimately
8 breached. These terms and conditions, however, did not address the margin
9 BellSouth expected to realize over the remaining term of the contract, and thus
10 did not give BellSouth the benefit of the agreement it struck with the customer. In
11 the June Key Customer offering, BellSouth used termination liability terms and
12 conditions that are designed, in part, to address that margin.

13

14 Q. WHAT ARE THE TERMINATION LIABILITY TERMS AND CONDITIONS
15 IN THE JUNE 2002 KEY CUSTOMER OFFERING?

16

17 A. If a customer terminates its June Key Customer contract prior to the expiration
18 date, the contract provides that the customer must pay an amount equal to all
19 rewards it has received as a result of any line connection charges that were waived
20 pursuant to the contract. In addition, the customer pays a designated amount for
21 each month remaining on the term of the contract.

22

23 Customers billing between \$75 and \$149.99 at the time they enter into a June Key
24 Customer contract are charged \$25 for each month remaining in the term of their
25 contract if they terminate the contract early.

1 Customers billing between \$150 and \$3,000 at the time they enter into a June Key
2 Customer contract are charged \$40 for each month remaining in the term of their
3 contract if they terminate the contract early.

4

5 Q. ARE THESE TERMINATION LIABILITY TERMS AND CONDITIONS
6 MADE CLEAR TO CUSTOMERS WHO SIGN A CONTRACT UNDER THE
7 JUNE KEY CUSTOMER OFFERING?

8

9 A. Yes. Exhibit JPC-2 is a copy of the form of the contract that customers sign
10 under the June Key Customer offering. Paragraph five clearly sets forth these
11 termination liability terms and conditions.

12

13 Q. PLEASE EXPLAIN HOW BELLSOUTH DETERMINED THE
14 TERMINATION LIABILITY TERMS AND CONDITIONS FOR THE JUNE
15 KEY CUSTOMER OFFERING.

16

17 A. The \$25 and \$40 per month amounts represent a conservative estimate of the
18 margin BellSouth would have received had the customer honored the contract it
19 signed. Additionally, by paying an amount equal to the rewards it has received as
20 a result of any line connection charges that were waived pursuant to the contract,
21 the customer returns benefits that BellSouth would not have provided to the
22 customer had it not entered into the contract that it ultimately breached.

23

24 Q. ISN'T THIS CALCULATION OF A LOST "MARGIN" INCONSISTENT
25 WITH YOUR EARLIER STATEMENT THAT BELLSOUTH CANNOT

1 ESTIMATE THE DAMAGES THAT IT WOULD LOSE UNER THESE
2 CONTRACTS WHEN THEY ARE BREACHED?

3

4 A. No. I will explain this in more detail below, but the margin is calculated by
5 looking at the average margins that would be associated with the minimum
6 number of Flat Rate Business Lines (“1FBs”) that the customer would have to
7 purchase in order to meet the \$75 or \$150 amounts set forth in the termination
8 liability provisions of the June Key Customer offering. BellSouth did not attempt
9 to calculate the actual margin it would have received had the customer honored
10 the contract. As I explained earlier, the customer controls what he purchases
11 under the contract, and that makes calculating in advance the actual damages
12 BellSouth will suffer as a result of a breach of the contract very difficult, if not
13 impossible.

14

15 Q. HOW DID BELLSOUTH DETERMINE THAT THE \$25 PER MONTH AND
16 THE \$40 PER MONTH AMOUNTS REPRESENT THE AVERAGE MINIMUM
17 AMOUNT OF MARGIN BELLSOUTH COULD EXPECT TO RECEIVE HAD
18 THE CUSTOMER HONORED THE CONTRACT IT SIGNED?

19

20 A. As I mentioned earlier, a customer can order any of a number of combinations of
21 Key-eligible services under the June Key Customer offering. In establishing the
22 \$25 and \$40 amounts, BellSouth looked at a common denominator, the Flat Rate
23 Business Line (“1FB”), and determined the minimum number of 1FBs a customer
24 would need to purchase in order to qualify at the lowest level of spending within
25 the two tiers - \$75 and \$150.

1 The rates for 1FBs vary by rate group in Florida, and the number of 1FBs
2 BellSouth provides in any given rate group is different than the number of 1FBs
3 BellSouth provides in any other rate group. BellSouth, therefore, used a weighted
4 average approach to determine a statewide average price for a 1FB and a
5 statewide average margin associated with that statewide average price. BellSouth
6 then calculated how many 1FBs a customer would have to purchase at the
7 statewide average price to meet the \$75 per month and \$150 per month spending
8 levels set forth in the June Key Customer offering's termination liability terms
9 and conditions. The \$25 and \$40 per month termination charges in the June Key
10 Customer offering represent the statewide average margin associated with those
11 numbers of 1FBs.

12

13 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

14

15 A. Yes.

16

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18

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BellSouth Key Customer Program Subscriber Election – Georgia & Florida

The undersigned Subscriber desires to participate in the BellSouth Key Customer Program (the "Program"), and agrees to the following:

1. Subscriber is a new or existing BellSouth Telecommunications, Inc. ("BellSouth") business services subscriber in Georgia or Florida and has monthly billed BellSouth regulated charges* (as defined in the applicable BellSouth tariff) at each such location between \$75 and \$3,000 excluding hunting charges. Subscriber agrees to keep local services with BellSouth under its General Subscriber Services Tariff ("G.S.S.T.") or Private Line Services Tariff, for a minimum of eighteen (18) or thirty-six (36) months from the enrollment date in the Program. The enrollment date shall be determined by the first billing cycle date in which Subscriber receives the discount off its BellSouth regulated charges as set forth in paragraph 2, below.

2. Subscriber agrees to the following term and discount (Check One):

Monthly Billed BellSouth Regulated Charges*	<input type="checkbox"/> Eighteen (18) Month Term	<input type="checkbox"/> Thirty-six (36) Month Term
\$75 - \$3,000.00	10%	25%
Hunting Bonus Discount	50%	100%

*The total billed charges consists of end-user monthly billed BellSouth regulated charges at qualifying locations excluding: nonregulated charges, taxes, late payment charges, charges billed pursuant to federal or state access service tariffs, charges collected on behalf of municipalities (including, but not limited to services for 911 service and dual party relay services), and charges for services provided by other companies.

3. The Hunting Bonus Discount will apply to the Subscriber's recurring charge for the Hunting service commensurate with the term of the election Subscriber chooses. (Hunting is also defined as Rotary Line Service).

4. For each month during which this contract is in effect, Subscriber will receive the discount associated with Subscriber's monthly total billed BellSouth charges* (as defined in the applicable BellSouth tariffs) for that particular month in each state as approved by regulatory authority. If such charges fall below the minimum revenue per month, discounts will not be applied for such locations. The applied discounts will appear as a credit in the Other Charges and Credits (OC&C) section of the Subscriber's bill. All business local service will continue after the election term has expired, after which Subscriber agrees to pay full tariffed charges.

5. In the event Subscriber discontinues business local service with BellSouth prior to the expiration of the term, Subscriber shall pay to BellSouth the amount of discounted charges for its local services that the Subscriber had received as a result of Subscriber's participation in the Program. In addition, Subscriber shall pay to BellSouth the amount of \$100 representing the costs of administration and acquisition incurred by BellSouth. Tariffed termination liability charges may apply if applicable.

6. In the event Subscriber changes service locations for business local service, Subscriber shall notify its BellSouth Small Business Office to advise of the change in service location.

7. In the event Subscriber is switched without authorization by another carrier for business local service, Subscriber must call its BellSouth Small Business Office to continue the Program once the improperly switched account has been returned to BellSouth.

8. This election is subject to and controlled by the provisions of BellSouth's lawfully filed tariffs, including any changes therein as may be made from time to time.

SUBSCRIBER: _____
 (Business Name)

 (Business Address)

By: _____
 (Signature)

 City/State

 Print Name

 (Business Telephone Number)

 Title

 (Additional Business Telephone Number(s))

 Date
 Version 010902

 E-Mail Address (optional)

Representative Name _____

CUID _____

Telephone # for Questions _____

BellSouth Key Customer Program Subscriber Election –Florida

The undersigned Subscriber desires to participate in the BellSouth Key Customer Program (the "Program"), and agrees to the following:

1. Subscriber is a new or existing BellSouth Telecommunications, Inc. ("BellSouth") business services subscriber and has monthly total billed BellSouth regulated charges* (as defined in the applicable BellSouth tariff) at each such location between \$75 and \$3,000 excluding hunting, analog private line and ISDN PRI charges. Subscriber agrees to keep local services with BellSouth under its General Subscriber Services Tariff ("G.S.S.T.") or Private Line Services Tariff for a minimum of twenty-four (24) or thirty-six (36) months from the enrollment date in the Program. The enrollment date shall be determined by the first billing cycle date in which Subscriber receives the reward as a result of its BellSouth regulated charges as set forth in paragraph 2, below.

2. Subscriber agrees to the following term and reward (Check One):

Monthly Billed BellSouth Regulated Charges*	<input type="checkbox"/> Twenty-Four (24) Month Term	<input type="checkbox"/> Thirty-six (36) Month Term
\$75 - \$3,000.00	10%	20%
Hunting Bonus Reward	50%	100%

*The total billed charges consists of end-user monthly billed BellSouth regulated charges at qualifying locations excluding: nonregulated charges, taxes, late payment charges, charges billed pursuant to federal or state access service tariffs, charges collected on behalf of municipalities (including, but not limited to services for 911 service and dual party relay services), and charges for services provided by other companies.

3. The Hunting Bonus Reward will apply to the Subscriber's recurring charge for the Hunting service commensurate with the term of the election Subscriber chooses. (Hunting is also defined as Rotary Line Service).

4. Participant must be a BellSouth customer at the time of the reward. The applied rewards will appear as a credit in the Other Charges and Credits (OC&C) section of the Subscriber's bill in a subsequent billing period, usually within one or two billing cycles. Subscriber will receive the reward associated with Subscriber's monthly total billed BellSouth charges* (as defined in the applicable BellSouth tariffs) for the previous month in each state while this term election is in effect. If such charges fall below the minimum charges per month, rewards will not be applied for such locations. Should Subscriber's charges exceed the \$3,000 threshold, the Subscriber will only receive the maximum reward allowed under this Program for charges up to \$3,000. Unless the Subscriber takes other action, all business local service will continue after the election term has expired after which Subscriber agrees to pay full tariffed charges.

5. In the event the Subscriber terminates the term election agreement, the Subscriber must pay to BellSouth a termination charge as provided below for the number of months remaining on such agreed upon term. In addition, the Subscriber shall reimburse all rewards for line connection charges. This termination charge will appear on the Subscriber's final bill as a charge in the OC&C section.

Monthly TBR at time of enrollment	Set charge to be multiplied by number of months remaining on term
\$75 - \$149.99	\$25
\$150 - \$3,000	\$40

6. In the event Subscriber changes service locations for business local service, Subscriber shall notify its BellSouth Small Business Office to advise of the change in service location.

7. In the event Subscriber is switched without authorization by another carrier for business local service, Subscriber must call its BellSouth Small Business Office to continue the Program once the improperly switched account has been returned to BellSouth.

8. Applicable taxes and fees will be based on the full tariff price of all products and services, and no taxes or fees will be added to the amount of any reward under this program.

9. Subscribers who participate in the promotion and subscribe to new service during the promotional period will receive an additional reward equal to the line connection charges associated with the service order. This will include the line connection charge (first and additional lines, line equivalent and trunks).

10. This term election is subject to and controlled by the provisions of BellSouth's lawfully filed tariffs, including any changes therein as may be made from time to time.

SUBSCRIBER: _____
 (Business Name)

 (Business Address)

By: _____
 (Signature)

 City/State

 Print Name

 (Business Telephone Number)

 Title

 (Additional Business Telephone Number(s))

 Date
 Version 071502

 E-Mail Address (optional)

 Representative Name

 CUID

 Telephone # for Questions