

1                   **BELLSOUTH TELECOMMUNICATIONS, INC.**  
2                   **DIRECT TESTIMONY OF E. STEVEN BIGELOW**  
3                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
4                   **DOCKET NOS. 020119-TP and 020578-TP**  
5                   **OCTOBER 23, 2002**

6  
7 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

8  
9 A. My name is E. Steven Bigelow. My business address is 3535 Colonnade Parkway,  
10 Birmingham, Alabama. I am a Director in the Pricing Strategy Department of BellSouth  
11 Telecommunications, Inc. ("BellSouth"). My area of responsibility is the provision of  
12 demand and revenue analysis in support of regulatory filings.

13

14 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**  
15 **BACKGROUND AND WORK EXPERIENCE.**

16

17 A. I attended the University of Alabama, graduating with a Bachelor of Science Degree in  
18 1975. I received a Masters of Business Administration from the University of Alabama  
19 in 1976.

20

21 My career with BellSouth spans twenty-six years. My initial employment was with  
22 South Central Bell in 1976, where I held positions in Market Research, Economic  
23 Analysis and Rates and Tariffs. In 1981 I accepted a transfer to AT&T where I served  
24 as the coordinator for a tariff standardization project. After divestiture, I transferred to  
25 BellCore where I worked on local exchange planning and new service concepts. In

1 1984 I returned to BellSouth to work in the pricing organization. I have been in my  
2 current assignment since 1989.

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

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6 A. My testimony responds to issue 2(iv) and 2(v) regarding the January and June Key  
7 Customer offerings in Florida:

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9 **Issue 2(iv) Is the BellSouth Key Customer tariff filing (Tariff Number T-**  
10 **020035<sup>1</sup>) unfair, anticompetitive, or discriminatory under the criteria,**  
11 **if any, established pursuant to Issues 2(i), 2(ii), and 2(iii)?**

12

13 **Issue 2(v) Is the BellSouth Key Customer tariff filing (Tariff Number T-020595<sup>2</sup>**  
14 **or a subsequent tariff filing that extends the expiration date thereof)**  
15 **unfair, anticompetitive, or discriminatory under the criteria, if any,**  
16 **established pursuant to Issues 2(i), 2(ii), and 2(iii)?**

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18 I will explain how BellSouth identified the rate elements available under the January Key  
19 Customer Offering that were used in the analysis that BellSouth witness Bernard Shell  
20 describes in his pre-filed direct testimony. I will also explain how BellSouth determined  
21 the service configurations that were used in the analysis that BellSouth witness Bernard

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23 <sup>1</sup> Throughout my testimony, I will refer to this offering as the “January Key Customer  
24 Offering.”

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

1 Shell describes in his pre-filed direct testimony.

2

3 **Q. HOW DID BELL SOUTH DETERMINE THE RATE ELEMENTS TO**  
4 **INCLUDE IN THE ANALYSIS MR. SHELL DESCRIBES IN HIS PRE-**  
5 **FILES DIRECT TESTIMONY?**

6

7 A. The analysis for the rate elements to be included in the January Key Customer  
8 Offering was based on a similar analysis that had been performed to support the Key  
9 Customer Offering that went into effect on June 26, 2001. The first step in the study  
10 process was to identify the rate elements potentially covered by the promotion. This  
11 was achieved by extracting from company records the rate element quantity and  
12 revenue details for all of the retail customers matching the promotion guidelines.  
13 These guidelines specified the wire centers covered by the promotion and the  
14 customer billed revenue limits (a minimum of \$100 and a maximum of \$3000). This  
15 data was summarized by rate element.

16

17 The next step was to develop the actual list of rate elements to analyze. This was  
18 achieved by ranking, on a revenue basis, each rate element extracted in the first step  
19 and selecting enough elements to account for 99.9% of the total revenue. This  
20 ensured that BellSouth would identify virtually all of the services sold from a revenue  
21 perspective; yet keep the study at a manageable level.

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23 As discussed in BellSouth witness Bernard Shell's pre-filed direct testimony, the  
24 per-unit revenue for each rate element was then compared to its cost. Elements  
25 passing the test were marked as appropriate for inclusion, because if all of the piece

1 parts of a service pass the test, then regardless of the ultimate configuration, the total  
2 service will also pass the test. Any element failing the test was marked for further  
3 study in a system configuration to determine if the service as a whole would pass the  
4 test. Any service failing the configuration test was excluded from the promotion in  
5 the manner described by Mr. Shell in his testimony. Analog private line services, for  
6 example, were excluded from the promotion.

7

8 If target market customer demand was not available, as was the case with the usage  
9 data, state level averages were used instead.

10

11 **Q. COULD YOU EXPLAIN WHY BELLSOUTH CHOSE TO USE THE JUNE**  
12 **2001 STUDY TO SUPPORT THE JANUARY KEY CUSTOMER FILING?**

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14 Yes. Because the differences between the Key Customer offering that had gone into  
15 effect in June of 2001 and the January Key Customer offering were minor, BellSouth  
16 believes that the differences would not materially affect the results of the first study.

17

18 The January Key Customer offering, for example, included five more wire centers  
19 than were included in the Key Customer Promotion that had gone into effect in June  
20 of 2001. This change increased the total number of small business lines located in a  
21 hot wire center by less than 1%.

22

23 Additionally, the minimum monthly revenue amount decreased from \$100 in the Key  
24 Customer Promotion that had gone into effect in June of 2001 to \$75 in the January  
25 Key Customer offering. While this change extended the benefits of the promotion to

1 slightly smaller customers, BellSouth did not believe that it would introduce any new  
2 rate elements to the analysis, and a subsequent sampling of relevant data confirmed  
3 this belief.

4

5 Finally, the Key Customer offering that had gone into effect in June of 2001 was  
6 supported by data collected during the second quarter of 2001. At the time support  
7 was being developed for the January Key Customer Offering, this data was still  
8 current, and it was reasonable to use this data to support the January Key Customer  
9 offering.

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11 **Q. COULD YOU EXPLAIN WHY BELLSOUTH CHOSE TO USE ONLY**  
12 **THOSE RATE ELEMENTS PRODUCING 99.9% OF THE TOTAL**  
13 **REVENUE INSTEAD OF ALL RATE ELEMENTS?**

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15 A. Yes. In Florida, a total of over 800 rate elements were identified in step one of the  
16 process. Using only the rate elements that produced 99.9% of the total revenue  
17 reduced the number of rate elements to be used in the analysis from over 800 to  
18 208. To include the additional 600 or so rate elements would have significantly  
19 increased the resources needed to study the proposal, without adding a  
20 commensurate value in evaluating the impact.

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22 **Q. COULD YOU EXPLAIN HOW BELLSOUTH DETERMINED THE**  
23 **CONFIGURATIONS THAT WERE USED IN THE ANALYSIS THAT**  
24 **WITNESS BERNARD SHELL DISCUSSES IN HIS PRE-FILED DIRECT**  
25 **TESTIMONY?**

1 A. Yes. If an individual rate element failed the margin test, the first step was to identify  
2 whether the element was a stand-alone service or whether it was a component of a  
3 larger service. If it was a component of a larger service, the data for the failed  
4 element and all related rate elements were sent to a tariff subject matter expert for  
5 evaluation. Based on the data provided, plus their knowledge of the service, the  
6 tariff expert developed a system configuration representative of the target market.  
7 This system configuration was then evaluated to determine if it passed the margin  
8 test.

9  
10 If a system configuration could not be developed from the available data, a minimum  
11 service arrangement was evaluated to determine if it passed the test. These were the  
12 configurations used in the analysis described in Mr. Shell's pre-filed direct testimony.

13  
14 To further illustrate the process, the rate elements for the first one half mile of a  
15 MegaLink local channel and for the fixed monthly rate for the interoffice channel  
16 failed to cover the 25% margin. However, in the target market the average loop  
17 length was 2 miles for a local channel and 15 miles for an interoffice channel. When  
18 the revenues and cost from these additional elements were included, the overall  
19 service covered the proposed discount.

20  
21 As another illustration, the evaluation of additional outward message rate PBX trunks  
22 indicated that the recurring rate element failed to cover the margin test. However,  
23 message rate trunks are not sold on a stand-alone basis. The addition of the multi-  
24 line subscriber line charge and statewide average message rate revenue produced a  
25 minimum service arrangement that did cover the proposed discount.

1           The details of each typical system configuration have been provided in witness  
2           Shell's exhibit WBS-2.

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4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

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6 A. Yes.

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