

1 BELL SOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY SAMUEL G. MASSEY
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NOS. 020119-TP and 020578-TP
5 NOVEMBER 25, 2002
6

7 Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELL SOUTH
8 TELECOMMUNICATIONS, INC. ("BELL SOUTH") AND YOUR
9 BUSINESS ADDRESS.

10
11 A. My name is Sam Massey. I am a Marketing Manager with BellSouth.
12 My address is 1057 Lenox Park Boulevard, Room 3D20, Atlanta,
13 Georgia 30319.

14
15 Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR BACKGROUND
16 AND EXPERIENCE.

17
18 A. I graduated from the Georgia Institute of Technology in Atlanta, Georgia
19 in 1987 with a Bachelor of Science degree in Industrial Management. I
20 completed my Masters Degree in Business Administration in 1989 at the
21 State University of West Georgia. I worked in BellSouth's Finance and
22 Forecasting organizations from May 1998 through February 2002. In
23 February 2002, I joined the BellSouth Strategic Analysis group of
24 BellSouth's Small Business Service unit as Manager of Competitive and
25 Strategic Analysis.

1

2 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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4 A. I will rebut various aspects of the direct testimony of Joseph Gillan,
5 Danyelle Kennedy, and Michael Gallagher, including their suggestions
6 that: local exchange competition in Florida is "in its infancy" and
7 BellSouth is in a position to "frustrate the emergence of competition"
8 (Gillan at p.2, ll. 3-4); BellSouth "still effectively enjoys monopoly status
9 in its incumbent territory" (Gallagher at p. 4, ll. 10-12); BellSouth is
10 somehow using the January and June Key customer offerings to
11 "eliminate competition from the market" (Kennedy at p. 11, ll. 12-14);
12 and the termination charges in the January and June Key Customer
13 offerings "'lock-up' customers in the coffers of the dominant provider and
14 deter customers from freely migrating even if they find a better
15 provider." (Gallagher at p. 16, ll. 5-7).

16

17 In particular, I present BellSouth's estimate of the percentage of the
18 total number of small business access lines in BellSouth's operating
19 territory in Florida that are being served by BellSouth. I also explain how
20 BellSouth prepared this estimate, and I address the number of access
21 lines that are receiving benefits under the January and June Key
22 Customer offerings.

23

24 Competitors in Florida are winning all types of small business customers
25 in rapidly increasing numbers contrary to Messrs. Gillan and Gallagher's

1 suggestions otherwise. In fact, the percentage of the total number of
2 small business access lines in BellSouth's operating territory in Florida
3 that are being served by BellSouth has steadily decreased from
4 approximately 90% at the end of 1999 to approximately 71.5% in
5 September 2002. This hardly represents competition in its infancy or
6 monopoly status.

7

8 Q. WHAT IS BELLSOUTH'S ASSESSMENT OF THE OVERALL
9 COMPETITIVENESS OF THE SMALL BUSINESS MARKET IN
10 FLORIDA?

11

12 A. The market is highly competitive. Our competitors operate in a very
13 focused and targeted manner. They typically concentrate on small to
14 mid-sized businesses, and they typically offer their services in focused,
15 targeted geographic areas. In the areas in which they choose to
16 compete, our competitors are gaining significant numbers of small
17 business access lines, far from being "eliminated."

18

19 Q. WHAT IS THE BASIS FOR THAT STATEMENT?

20

21 A. Each month BellSouth uses retail information to develop an estimate of
22 the percentage of small business access lines in its operating territory in
23 Florida that BellSouth actually serves. The chart below shows this
24 percentage for the months of January 2000 through September 2002.
25 As evidenced by this chart, the percentage of these small business lines

1 that are served by BellSouth has fallen from an overstated estimate of
2 90.0% at the end of 1999 to an overstated estimate of 71.5% in
3 September 2002.¹ SBS is currently losing between 0.3% and 0.4%
4 additional share points every month, which equates to roughly 3.6% to
5 4.8% annually. Clearly customers are able to migrate freely.

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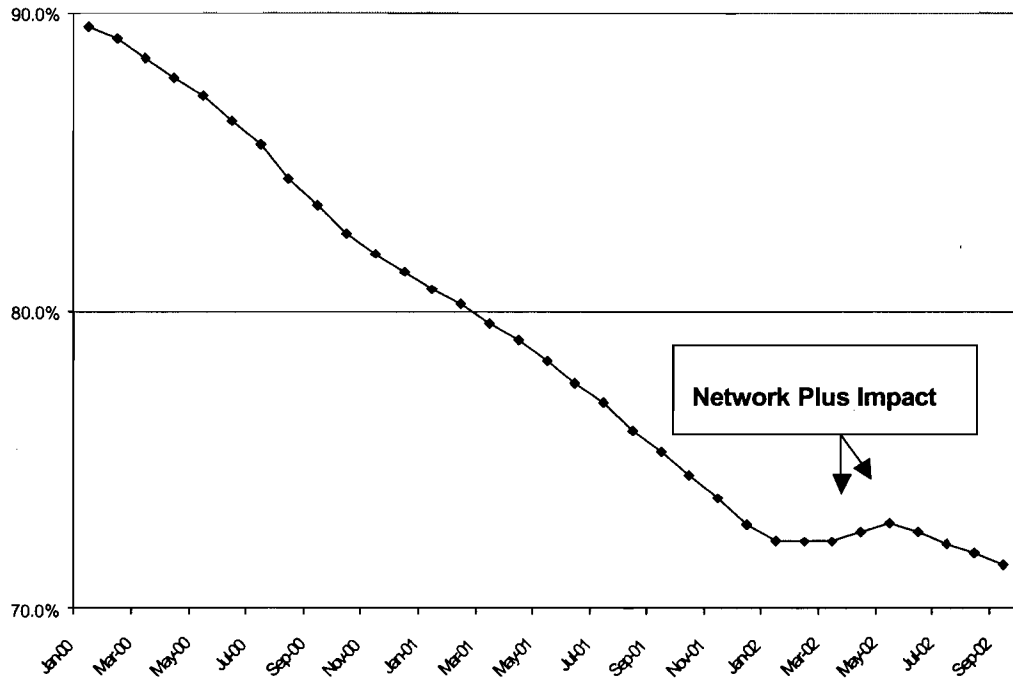
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25 ¹ I will explain why these percentages are overstated later in my
testimony.

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FIGURE 1

**BellSouth Small Business Services
Florida Access Line Market Share**



Q. WHAT KIND OF SMALL BUSINESS CUSTOMERS ARE LEAVING BELLSOUTH TO BE SERVED BY BELLSOUTH'S COMPETITORS?

A. All kinds. A few examples of some of the small business customers that have disconnected service with BellSouth to go to competitors include:



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[REDACTED]

Customers like these are the lifeblood of BellSouth's Small Business Services unit. As shown by this list, competitors are winning all types of small business customers. This is the reason BellSouth's share of the small business market is at present levels and declining rapidly, demonstrating clearly that competition is in fact emerging.

Q. WHAT ACCOUNTS FOR THE SLIGHT INCREASE IN BELLSOUTH'S PERCENTAGE OF THESE LINES BETWEEN MARCH 2002 AND MAY 2002 IN FIGURE 1?

A. During the March through May 2002 time period, Network Plus, an ALEC operating in Florida, Georgia, and North Carolina, wound down its operations. Before it ultimately ceased operations in mid-May of 2002, its customers were forced to choose new local service providers. While BellSouth retail units do not know how many access lines migrated from Network Plus to BellSouth during this time period, there was a noticeable increase in access lines installed during this time (as reflected in Figure 1), and the migration of customers from Network Plus to BellSouth likely caused that increase.

Q. HOW DID BELLSOUTH DEVELOP THE ESTIMATED PERCENTAGES SET FORTH IN FIGURE 1?

1 A. Each month, BellSouth uses retail data to determine the total number of
2 BellSouth small business switched access lines in Florida ("BellSouth
3 Lines"). That number is divided by the sum of that number plus the net
4 of: (1) the cumulative number of BellSouth small business switched
5 access lines that have disconnected from BellSouth for what BellSouth
6 believes, based on retail information, are competitive reasons
7 ("Cumulative Competitive Disconnects"); and (2) the cumulative number
8 of small business switched access lines that have come to BellSouth
9 from competitors ("Cumulative Lines Acquired from ALECs"). Stated in
10 formula form:

11

$$\frac{\text{BellSouth Lines}}{\text{BellSouth Lines} + (\text{Cumulative Competitive Disconnects} - \text{Cumulative Lines Acquired from ALECs})}$$

12 -----
13 -----
14

15
16 The resulting figure represents the estimated percentage of small
17 business switched access lines in BellSouth's operating territory that are
18 being served by BellSouth.

19
20 Q. HOW LONG HAS BELLSOUTH TRACKED DATA ON THE NUMBER OF
21 LINES IT HAS ACQUIRED FROM ALECS?

22
23 A. Since January 2000.
24
25

1 Q. HOW CAN BELLSOUTH USE THE FORMULA DESCRIBED ABOVE IF
2 IT ONLY BEGAN TRACKING THE NUMBER OF LINES ACQUIRED
3 FROM ALECS IN JANUARY 2000?
4

5 A. BellSouth tracked competitive disconnects prior to January 2000, so
6 BellSouth knows the Cumulative Competitive Disconnects as of the
7 end of 1999. BellSouth used data on lines acquired from CLECs
8 during the year 2000 to estimate the Cumulative Lines Acquired from
9 ALECs as of the end of 1999.
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11
12 BellSouth calculated the ratio of Lines Acquired from ALECs in the year
13 2000 to Competitive Disconnects in the year 2000. BellSouth applied
14 that ratio to the Cumulative Competitive Disconnects as of the end of
15 1999 to estimate the Cumulative Lines Acquired from ALECs as of the
16 end of 1999.
17

18 Q. WOULD IT NOT BE EASIER, AND PERHAPS MORE ACCURATE, TO
19 USE WHOLESALE DATA TO ESTIMATE THE PERCENTAGE OF
20 SMALL BUSINESS SWITCHED ACCESS LINES IN BELLSOUTH'S
21 OPERATING TERRITORY THAT ARE BEING SERVED BY
22 BELLSOUTH.
23
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25

1 A. Perhaps, but these estimates are prepared by a BellSouth retail unit,
2 and BellSouth's retail units do not have access to wholesale information.
3 Accordingly, no wholesale information was used to prepare these
4 estimates.

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6 Q. WHAT IMPACT DOES THE USE OF ONLY RETAIL DATA HAVE ON
7 THE CALCULATIONS YOU HAVE DESCRIBED?

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9 A. In all likelihood, BellSouth actually serves an even lower percentage of
10 the small business access lines in its operating territory in Florida than is
11 reflected in the estimates set forth in my testimony. This is the case for
12 at least two reasons.

13
14 First, no new market growth is included in the estimates set forth in my
15 testimony. By "new market growth," I am referring to things such as:
16 small business customers leaving BellSouth for an ALEC and then
17 purchasing additional (or "growth") lines from the ALEC; brand new
18 small businesses ordering lines from ALECs; existing BellSouth small
19 business customers opening new locations and ordering service at those
20 locations from ALECs; and existing BellSouth small business customers
21 adding new lines at an existing location and purchasing those new lines
22 from ALECs. In each of these (and other similar) situations, the lines
23 that are being purchased never were with BellSouth. These lines,
24 therefore, are not included in BellSouth's market share calculations
25 because BellSouth has no retail information that indicates the existence

1 of these lines, and the result is that BellSouth overstates its share of the
2 small business market.

3

4 Second, the competitive disconnects recorded by BellSouth SBS each
5 month do not include any lines that are disconnected because a current
6 customer has chosen to have some or all of its local service provided by
7 a wireless carrier.

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9 Q. DOES THE CUMULATIVE COMPETITIVE DISCONNECT FIGURE
10 INCLUDE MIGRATION TO OTHER BELLSOUTH PRODUCTS (I.E.,
11 DATA PRODUCTS)?

12

13 A. No. Any migration to other products is handled through a change order
14 that does not appear as a competitive disconnect in the retail data
15 BellSouth uses in these market share calculations. Thus, when a
16 customer disconnects a switched access line and installs a new data
17 line, the disconnection of that switched access line is not included in the
18 number of competitive disconnects for that month.

19

20 Q. DO YOU HAVE INFORMATION SIMILAR TO WHAT YOU HAVE SET
21 FORTH IN FIGURE 1 FOR THE WIRE CENTERS THAT ARE
22 INCLUDED IN THE JANUARY AND JUNE KEY CUSTOMER
23 OFFERINGS?

24

25

1 A. Yes. BellSouth's estimated share in each of these wire centers as
2 of September 2002, is set forth in Exhibits SGM-1 and SGM-2 to
3 my testimony. BellSouth tracked competitive disconnects prior to
4 January 2001, but did not track lines acquired from ALECS on a
5 wire center basis prior to January 2001. BellSouth used data on
6 lines acquired from CLECs during the year 2001 to estimate the
7 Cumulative Lines Acquired from ALECs as of the end of 2000.
8

9
10 BellSouth calculated the ratio of Lines Acquired from ALECs in the year
11 2001 to Competitive Disconnects in the year 2001. BellSouth applied
12 that ratio to the Cumulative Competitive Disconnects as of the end of
13 2000 to estimate the Cumulative Lines Acquired from ALECs as of the
14 end of 2000.
15

16
17 Q. HOW MANY SMALL BUSINESS ACCESS LINES ARE IN SERVICE IN
18 BELLSOUTH'S OPERATING TERRITORY IN FLORIDA?
19

20 A. Because BellSouth has no way of knowing how many access lines
21 ALECs actually are providing to small business customers in BellSouth's
22 territory, BellSouth can only estimate that number. As explained above,
23 the method by which BellSouth uses retail data to develop that estimate
24 understates the number of small business access lines being served by
25 ALECs. With that qualification, and based on retail data, BellSouth

1 estimates that as of September 2002, approximately 1,094,052 access
2 lines were serving small business customers in BellSouth's operating
3 territory in Florida. BellSouth was providing 782,048 of those lines
4 (71.5%), and BellSouth estimates that ALECs were providing 312,004 of
5 those lines (28.5%).

6

7 Q. HOW MANY OF THESE ACCESS LINES ARE RECEIVING BENEFITS
8 UNDER THE JANUARY OR JUNE KEY CUSTOMER OFFERINGS?

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10 A. As of September 13, 2002, 89,208 of BellSouth's small business access
11 lines were receiving benefits under the January Key Customer offering,
12 and 23,092 of BellSouth's small business access lines were receiving
13 benefits under the June Key Customer offering. The combined total of
14 approximately 112,300 lines that are receiving benefits under the
15 January and June Key Customer offerings represent less than 15% of
16 the 782,048 small business access lines served by BellSouth in Florida,
17 and it represents less than 11% of the 1,094,052 total small business
18 access lines that BellSouth conservatively estimates are in service in
19 BellSouth's operating territory.

20

21 Q. WHAT PERCENTAGE OF LINES THAT ARE ELIGIBLE FOR THE
22 JANUARY AND JUNE KEY CUSTOMER OFFERINGS ARE ACTUALLY
23 RECEIVING BENEFITS UNDER THE JANUARY AND JUNE KEY
24 CUSTOMER OFFERINGS?

25

1 A. As of August 30, 2002, approximately 617,961 of BellSouth's small
2 business access lines in Florida were eligible for the June Key Customer
3 offering. Accordingly, the combined total of approximately 112,300 lines
4 that are receiving benefits under the January and June Key Customer
5 offerings represent less than 19% of the BellSouth's small business
6 access lines that are eligible to participate in the offerings.

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8 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

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10 A. Even calculations that overstate BellSouth's market share show that
11 BellSouth has lost almost 30% of its small business access line market
12 share in the state of Florida, and BellSouth is continuing to lose market
13 share at the rate of more than 0.3%-0.4% percentage points each
14 month, which equates to roughly 3.6% to 4.8% annually. BellSouth
15 share of the market is significantly lower in many wire centers. There
16 can be no doubt that competition is thriving in the state of Florida.

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18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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20 A. Yes.

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