

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

PETITION FOR EXPEDITED REVIEW AND CANCELLATION OF BELLSOUTH TELECOMMUNICATIONS, INC.'S KEY CUSTOMER PROMOTIONAL TARIFFS AND FOR INVESTIGATION OF BELLSOUTH'S PROMOTIONAL PRICING AND MARKETING PRACTICES, BY FLORIDA DIGITAL NETWORK, INC. DOCKET NO. 020119-TP

PETITION FOR EXPEDITED REVIEW AND CANCELLATION OF BELLSOUTH TELECOMMUNICATIONS, INC.'S KEY CUSTOMER PROMOTIONAL TARIFFS BY FLORIDA COMPETITIVE CARRIERS ASSOCIATION DOCKET NO. 020578-TP

PETITION FOR EXPEDITED REVIEW AND CANCELLATION OR SUSPENSION OF BELLSOUTH TELECOMMUNICATIONS, INC.'S KEY CUSTOMER TARIFF FILED 12/16/02 BY FLORIDA DIGITAL NETWORK, INC. DOCKET NO. 021252-TP

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1 PROCEEDINGS: HEARING
2
3 BEFORE: CHAIRMAN LILA A. JABER
4 COMMISSIONER J. TERRY DEASON
5 COMMISSIONER BRAULIO L. BAEZ
6 COMMISSIONER CHARLES M. DAVIDSON
7 COMMISSIONER RUDOLPH "RUDY" BRADLEY
8
9 DATE: Wednesday, February 19, 2003
10
11 TIME: Commenced at 9:30 a.m.
12
13 PLACE: Betty Easley Conference Center
14 Room 148
15 4075 Esplanade Way
16 Tallahassee, Florida
17
18 REPORTED BY: JANE FAUROT, RPR
19 Chief, Office of Hearing Reporter Services
20 FPSC Division of Commission Clerk and
21 Administrative Services
22 (850) 413-6732
23
24 APPEARANCES: (As heretofore noted.)
25

I N D E X

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 3.)

CHAIRMAN JABER: Let's go back on the record.

MS. MAYS: Madam Chair, we did consult with counsel for FDN and they do not object to us adding the page that has been distributed as CG-6, Page 1 of 28.

CHAIRMAN JABER: Thank you.

MS. MAYS: We also have one additional exhibit that Mr. Garcia needs to withdraw, and I believe it is CG-8 to his rebuttal.

CHAIRMAN JABER: Thank you.

MS. MAYS: Is that correct, Mr. Garcia?

THE WITNESS: Yes.

CHAIRMAN JABER: All right. So with respect to the direct testimony, Mr. Garcia, you had no changes?

THE WITNESS: Correct.

CHAIRMAN JABER: The prefiled direct testimony of Carlos Garcia shall be inserted into the record as though read.

CARLOS GARCIA

resumed the stand as a witness on behalf of BellSouth Telecommunications, Inc. and, having been previously sworn, testified as follows:

CONTINUED DIRECT EXAMINATION

BY MS. MAYS:

Q And with the withdrawals you have made, Mr. Garcia,

1 if I were to ask you the same questions that appear in your
2 rebuttal, would your answers here be the same?

3 A Yes, they will.

4 MS. MAYS: If we could, Madam Chair, with the changes
5 have the rebuttal testimony admitted.

6 CHAIRMAN JABER: The prefiled rebuttal testimony of
7 Carlos Garcia with the changes outlined today shall be inserted
8 into the record as though read.

9 MS. MAYS: And then if we could, Madam Chair,
10 identify the exhibits to Mr. Garcia's direct and rebuttal with
11 the withdrawals again as the next exhibit.

12 CHAIRMAN JABER: CG-1 through CG-4 will be identified
13 as Composite Exhibit 20. CG-5 through CG-7 will be identified
14 as Composite Exhibit 21.

15 MS. MAYS: Thank you, Madam Chair.

16 (Composite Exhibits 20 and 21 marked for
17 identification.)

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1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 DIRECT TESTIMONY OF CARLOS GARCIA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET NO. 020119-TP & 020578-TP
5 OCTOBER 23, 2002
6

7 Q. PLEASE STATE YOUR NAME, YOUR BUSINESS ADDRESS, AND YOUR
8 POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.
9 ("BELLSOUTH").
10

11 A. My name is Carlos Garcia. My business address is 600 N.W. 79th Avenue, Room
12 668, Miami, Florida. I am the Market Manager for Inbound Sales/Small Business
13 Services in Florida. My responsibilities include analyzing the
14 telecommunications market in Florida for current industry trends and competitor
15 marketing efforts. I also am involved in customer care, and I offer support to
16 BellSouth's business sales efforts.
17

18 Q. PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE.
19

20 A. I earned a degree in marketing from Florida International University in 1982, and
21 I earned an M.B.A. from Florida International University in 1996. My career with
22 BellSouth began in 1980 in the Consumer Division, where I marketed residential
23 telecommunications products and services. I moved to the Small Business
24 organization in 1983, and I assumed my current position in 2000.
25

1 Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE ANY STATE PUBLIC
2 SERVICE COMMISSION?

3

4 A. NO.

5

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?

7

8 A. The purpose of my testimony is to: (1) identify the January Key Customer
9 offering; (2) identify the June Key Customer offering; and (3) describe the fierce
10 competition that BellSouth faces in the state of Florida, particularly in the wire
11 centers in which the January and June Key Customer Offerings are available. My
12 testimony is based on my experience over the last two years in my current
13 position, my experiences during visits and calls with customers, information
14 gathered during interaction with BellSouth's sales force, and information gathered
15 from periodicals, newspapers, websites and industry seminars.

16

17 Q. DO YOU HAVE ANY PRELIMINARY COMMENTS YOU WOULD LIKE TO
18 MAKE?

19

20 A. Yes. I do not understand why the issues identified in this docket are being
21 directed towards BellSouth's promotional offerings. BellSouth has been offering
22 promotional offerings (including promotional offerings similar to the January and
23 June Key Customer offerings) in Florida for several years. During that time,
24 ALECS have been consistently undercutting BellSouth's prices and winning a
25 substantial share of the small business customers that are served out of the wire

1 centers in which the January and June Key Customer offerings are available. As
2 the testimony of BellSouth witness John Ruscilli demonstrates, BellSouth has lost
3 a significant share of the small business customer market in these wire centers to
4 ALECs, even during the periods when BellSouth was offering these promotions.
5 Obviously, competition is alive and well in these wire centers, and any additional
6 restrictions on BellSouth's ability to compete will only harm the consumers by
7 depriving them of competitive offerings by BellSouth.

8
9 Q. WHAT IS THE JANUARY KEY CUSTOMER OFFERING?

10
11 A. The January Key Customer offering is a promotional offering that BellSouth filed
12 as Tariff No. T-020035. A copy of the tariff filing package, as approved by the
13 Commission, is attached to my testimony as Exhibit CG-1.

14 Q. WHAT IS THE JUNE KEY CUSTOMER OFFERING?

15
16 A. The June Key Customer offering is a promotional offering that BellSouth filed as
17 Tariff No. T-020595. A copy of the tariff filing package, as approved by the
18 Commission, is attached to my testimony as Exhibit CG-2.

19 Q PLEASE EXPLAIN WHY YOU SAY THAT COMPETITION IS ALIVE AND
20 WELL IN THE WIRE CENTERS IN WHICH THE JANUARY AND JUNE
21 KEY CUSTOMER OFFERINGS ARE AVAILABLE?

22
23 A. First, the fact that ALECs are fiercely competing for small business customers in
24 Florida is obvious from stories in newspapers, advertisements, television stations,
25 as well as advertising. A representative sample of advertisements, websites,

1 promotional materials, and news articles is attached to my testimony as Exhibit
2 CG-3.

3
4 Second, many ALECs offer or have offered promotions in Florida. To the extent
5 that ALECs have filed such promotions in their Florida tariffs, those promotions
6 are addressed in the direct testimony of BellSouth witness John Ruscilli.

7
8 Third, in the course of performing my job duties, I often encounter the sales and
9 marketing activities in which the ALECs are engaged in Florida. Frequently,
10 BellSouth sales personnel and I will review an offer that an ALEC is making (or
11 has made) to an existing (or former) BellSouth customer. These offers typically
12 undercut BellSouth's standard tariff prices by at least 20% to 30%, and they
13 typically involve customers that are served out of the "hot" wire centers. I also
14 routinely talk to customers who have stated that they are regularly contacted by
15 ALECs that tout the savings they can offer as compared to BellSouth's rates.

16
17 Finally, on occasion customers actually present us with copies of competitive
18 proposals that an ALECs has not designated as proprietary or with a copy of a
19 telecommunications bill they have received from an ALEC. I have attached some
20 of these offers and bills (which have been redacted in order to protect the privacy
21 of the customer) to my testimony as Exhibit CG-4.

22
23 Q. COULD YOU DESCRIBE SOME OF THE ADVERTISING AND MEDIA
24 MATERIALS THAT ARE INCLUDED IN EXHIBIT CG-3.

25

1 A. Yes. One of the documents in Exhibit CG-3 is an October 2, 2002 article in
2 which the Orlando Business Journal reports that “Florida Digital Network [is]
3 recognized for fast revenue growth.” Another is a September 9, 2002 article in
4 which the Miami Herald reports that “Florida Digital Network succeeds with local
5 focus.”

6
7 Another document is a flyer in which Mpower Communications, Corp.
8 (“Mpower”) touts “Up to 40% Savings over BellSouth for Local, Long Distance,
9 and High-Speed Internet Services.” Among other things, this flyer references
10 “FREE” Hunting/Rollover service.

11
12 Another document, entitled “Reference Quotes,” appears on Mpower letterhead,
13 and apparently it is a document Mpower sends to prospective customers. Among
14 other things, this document quotes existing Mpower customers as saying:

15
16 No more HIGH COST for BellSouth service. We have 4 locations in
17 South Florida and the FREE SOUTH FLORIDA CALLING ZONE is
18 great. I am not a big fan of BellSouth for their pricing has always been
19 ways (sic) out of line. I thank you Mpower Communications for allowing
20 business professionals like myself to SAVE. Our telecom expense has
21 been reduced over 50%, which equates to over \$1,500 in monthly savings.

22
23 An Mpower e-mail announces “a rate change to our South Florida Business
24 Customers, effective 4/8/02.” According to this e-mail, these customers can get
25 POTS lines from Mpower for \$33.00 month-to-month, for \$29.00 per month

1 under a 1-year term contract, for \$25.00 per month under a 2-year term contract;
2 and for \$24.00 per month under a 3-year term contract. These prices represent a
3 10-35% discount from BellSouth's monthly charges for a POTS line. These
4 customers also can get Mpower Centrex service for \$41.00 month-to-month; for
5 \$37.00 per month under a 1-year term contract; for \$34.00 per month under a 2-
6 year term contract; and for \$32.00 per month under a 3-year term contract. The e-
7 mail states:

8
9 Need more than just great rates to help close a sale with a Term
10 Agreement? YOU GOT IT! Mpower will now be offering Price
11 Protection Guarantees, as well as Service Guarantees with ALL signed
12 Term Agreements!

13
14
15 The second page of the e-mail provides that the Price Protection Guarantee does
16 not apply to promotions," which suggests that Mpower does, in fact, run
17 promotions in Florida. The second page of the e-mail also provides that the
18 Service Guarantee "does not apply to term agreements with **non-standard**
19 **pricing** or non-standard products, or **non-standard terms and conditions**
20 **(ICBs)**, or non-standard installations." (Emphasis added). This suggests that
21 Mpower offers non-standard pricing and/or non-standard terms and conditions in
22 Florida.

23
24 Another document is an advertising flyer for Energy Savers Telecom. It states
25 that for "\$26 monthly per line FLAT RATE," a customer gets "FREE unlimited

1 local calls (Zones 1, 2, & 3)” and “FREE unlimited local toll calls (LATA).”
2 With all the talk of “free” service, it is not surprising that the website referenced
3 on the flyer is “www.local4free.com.” The second page of the flyer represents
4 that a customer would pay Energy Savers Telecom \$32.12 for the same services
5 for which it would pay BellSouth \$72.30. This represents a discount of
6 approximately 56% off BellSouth’s prices for those services.

7
8 Exhibit CG-4 also includes copies of various pages that appeared on Supra
9 Telecommunications and Information Systems, Inc.’s (“Supra”) website as
10 recently as October 20, 2002. On these WebPages:

11
12 * Supra compares the \$34.95 it charges for its Executive Basic Line
13 (which includes “unlimited local long distance and free voice mail)
14 with the \$45.17 BellSouth rate for a business line. This represents
15 a discount of approximately 23% off the referenced BellSouth
16 price.

17
18 * Supra compares the \$42.95 it charges for Total Solutions Plus
19 offering (which includes “unlimited local long distances” and “30
20 convenient calling features and free voice mail”) to BellSouth’s
21 \$64 Complete Choice price. This represents a discount of
22 approximately 33% off the referenced BellSouth price.

23
24 * Supra compares the \$69.95 it charges for its Total Solution Plus –
25 2 Lines offering (which “offers your business all the convenient

1 features and services of the single-line plan on two telephone lines
2 for one low price”) to BellSouth’s \$103.00 Complete Choice – 2
3 Line price. This represents a discount of approximately 32% off
4 the referenced BellSouth price.

5
6 * Supra compares the \$99.95 it charges for its Total Solution Plus –
7 3 Lines offering (which “offers your business all the convenient
8 features and services of the single-line plan on two (sic) telephone
9 lines for one low price”) to BellSouth’s \$151.00 Complete Choice
10 – 3 Line price. This represents a discount of approximately 34%
11 off the referenced BellSouth price.

12
13 * Supra compares the \$129.95 it charges for its Total Solution Plus –
14 4 Lines offering (which touts “complete local service and
15 unlimited local long distance calling in your Expanded Calling
16 Area, as well as Free Voice Mail and up to 30 convenient calling
17 features, including Hunting/Rollover”) to BellSouth’s \$177.00
18 Complete Choice – 4 Line price. This represents a discount of
19 approximately 27% off the referenced BellSouth price.

20
21 * Supra compares its “free” local long distance service BellSouth’s
22 \$30.00 Area Plus rate.

23
24 Q. PLEASE DESCRIBE SOME OF THE COMPETITIVE PROPOSALS THAT
25 ARE INCLUDED IN EXHIBIT CG-4.

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A. One of the proposals addresses the Mpower Office velocity offering, which boasts “integration of broadband Internet connectivity and business class voice service” that provides a “comprehensive and flexible all-in-one solution.” Among the “features included with every Mpower Office Package” are hunting, Caller ID, call number delivery blocking, “Intra LATA wide calling,” Call Blocking, and Toll Restrictions. The proposal suggests that a customer must sign a 1-year or 2-year term contract.

Another IDS proposal compares IDS prices to BellSouth’s prices for various services at three of a customer’s locations. Even without taking into account any of IDS’ prices for toll services:

The IDS prices set forth in the “Product for Product” comparison represents a discount of: approximately 41% off BellSouth’s prices for the same services at the customer’s Miami location; approximately 25% off BellSouth’s prices for the same services at the customer’s Ft. Lauderdale location; and approximately 25% off BellSouth’s prices for the same services at the customer’s West Palm Beach location.

The IDS prices set forth in the “Integrated T-1 Comparison” represents a discount of: approximately 16% off BellSouth’s prices for the same services at the customer’s Miami location; approximately 25% off BellSouth’s prices for the same services at the customer’s Ft. Lauderdale

1 location; and approximately 25% off BellSouth's prices for the same
2 services at the customer's West Palm Beach location.

3
4 The IDS prices set forth in the "Voice & Data-T Comparison" comparison
5 represents a discount of: approximately 58% off BellSouth's prices for the
6 same services at the customer's Miami location; approximately 25% off
7 BellSouth's prices for the same services at the customer's Ft. Lauderdale
8 location; and approximately 25% off BellSouth's prices for the same
9 services at the customer's West Palm Beach location.

10
11 Another IDS proposal is a fax that offers a Plantation, Florida customer "30%
12 OFF Bell South's line charges and features," "3.9 Cents Per Minute Long
13 Distance," and "FREE" Tri-County Calling. The proposal touts "one extremely
14 low phone bill for all your services," and it unabashedly states that "[y]our calls
15 will be carried on the same reliable network as Bell South with the same
16 technicians to handle your service request. The only change you will notice is a
17 lower phone bill each and every month!"

18
19 Q. DO ANY OF THE ALEC BILLS THAT BELLSOUTH HAS RECEIVED FROM
20 CUSTOMERS SHOW THAT ALECS ARE UNDERCUTTING BELLSOUTH'S
21 PRICES FOR SIMILAR SERVICES?

22
23 A. Yes. For example, Intermedia Communications charged one customer in
24 Jacksonville \$20.40 for a POTS line. This represents a discount of approximately

1 45% off BellSouth's standard tariffed rate for the similar service in that area,
2 which is \$36.99

3
4 Similarly, Adelphia Business Solutions charged a Miami customer \$471.92 for
5 multiple lines with features. This represents a discount of approximately 23% off
6 BellSouth's standard tariffed rates for the same services in the same area, which is
7 \$617.17.

8
9 Likewise, Access Integrated Networks charged a Jacksonville customer \$46.48
10 for one POTS line with features. This represents a discount of approximately
11 32% off BellSouth's standard tariffed rates for the same services in the same area,
12 which is \$68.17.

13
14 Q. WHERE IS COMPETITION THE STRONGEST?

15
16 A. Competition is everywhere in Florida, but it is most fierce in the "hot wire
17 centers" in which the January and June Key Customer offerings are available.

18
19 Q. IN HIS PRE-FILED DIRECT TESTIMONY, BELLSOUTH WITNESS JOHN
20 RUSCILLI ADDRESSES THE CLUB BILLING, SLA, AND MOVE
21 PROVISIONS IN THE JUNE KEY CUSTOMER OFFERING. IN GENERAL,
22 WHAT LED TO THESE PROVISIONS APPEARING IN THAT OFFERING?

23
24 A. These provisions were included in the June Key Customer offering as a result of
25 requests from and discussions with BellSouth customers. Some customers raised

1 questions related to the application of Key Customers benefits to CLUB billing
2 and SLA arrangements, and some customers that either had or were planning to
3 move locations wanted to be sure that they could continue to keep their service
4 with BellSouth and receive these benefits they had bargained for. As a result of
5 this interaction with customers, BellSouth included the provisions Mr. Ruscilli
6 addresses in the June Key Customer offering.

7

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9

10 A. Yes.

11

12 467562

1 BELLSOUTH TELECOMMUNICATIONS, INC.
2 REBUTTAL TESTIMONY OF CARLOS GARCIA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 DOCKET No. 020119-TP & 020578-TP
5 NOVEMBER 25, 2002
6
7 Q. PLEASE STATE YOUR NAME, YOUR BUSINESS ADDRESS, AND
8 YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC.
9 ("BELLSOUTH").
10
11
12 A. My name is Carlos Garcia. My business address is 600 N.W. 79th
13 Avenue, Room 668, Miami, Florida. I am employed by BellSouth as the
14 Market Manager for Inbound Sales/Small Business Services in Florida.
15
16
17 Q. ARE YOU THE SAME CARLOS GARCIA WHO FILED DIRECT
18 TESTIMONY IN THIS PROCEEDING?
19
20 A. Yes.
21
22 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?
23
24 A. My rebuttal testimony responds to the direct testimony of Mr. Joseph
25 Gillan and Ms. Danyelle Kennedy, filed on behalf of the Florida

1 Competitive Carriers Association ("FCCA"), as well as to the direct
2 testimony of Michael P. Gallagher, filed on behalf of Florida Digital
3 Network, Inc. ("FDN"). My rebuttal testimony focuses on the competitive
4 Florida market for small business customers; including the types of
5 competitive offers available in the marketplace and how BellSouth has
6 responded to these offers.

7
8 Q. MR. GILLAN CONTENDS THAT ANY PROMOTION THAT IS
9 AVAILABLE ONLY TO FORMER BELLSOUTH CUSTOMERS – OR
10 EXISTING ALEC CUSTOMERS – IS DISCRIMINATORY. (p. 8, Ins. 21-
11 22 ; p. 9, Ins. 5-7). LIKEWISE, MR. GALLAGHER CONTENDS THAT
12 BELLSOUTH SHOULD BE COMPELLED TO OFFER LOWER RATES
13 TO ALL ELIGIBLE CUSTOMERS. (p. 14, Ins. 16-18) AND FURTHER
14 COMPLAINS THAT BELLSOUTH SHOULD ALERT ELIGIBLE
15 CUSTOMERS OF ITS OFFERS (p. 13, Ins. 17-18). PLEASE
16 COMMENT.

17
18
19 A. Mr. Gillan and Mr. Gallagher are confused. Marketing that is targeted
20 to former BellSouth customers is entirely reasonable and is consistent
21 with the realities of the small business competitive market. For
22 BellSouth to convince a former customer to leave an ALEC and return to
23 BellSouth requires an extra effort. Typically, former customers leave
24 and establish service with an ALEC due to either a specialized bundle of
25

1 services offered by the ALEC or the ALEC's pricing. To compete in the
2 marketplace, BellSouth must respond to their offerings by, among other
3 things, offering lower prices for its services. The ALECs should not be
4 heard to complain when BellSouth responds to the pressures that were
5 created by the ALECs themselves.

6
7 Moreover, from a "cost of doing business" perspective, it is reasonable
8 to differentiate between former BellSouth customers and brand new
9 customers. Former customers have credit histories and established
10 network facilities (loops) to provide telephone service. Brand new
11 customers have no such credit histories, and in order to provide service
12 BellSouth may have to place new network facilities. From a competitive
13 perspective, therefore, marketing that reasonably recognizes different
14 types of customers makes sense and is necessary to compete in
15 Florida.

16
17 Finally, the January and June Key Customer offers are available to all
18 types of customers – whether the customers are new or returning
19 customers, or existing customers – and BellSouth takes reasonable
20 steps to inform all types of customers of these offerings. BellSouth
21 proactively sent direct mail to thousands of potentially eligible customers
22 – both former and existing BellSouth customers -- to notify them of these
23 offerings. (See attached as Exhibit CG-5 BellSouth's Response to
24 FCCA and Mpower's First Set of Interrogatories, August 13, 2002, Item
25

1 No. 8a.). Thus, contrary to Mr. Gallagher's assertions, BellSouth in fact
2 "alerted" customers of these offerings and did not restrict the offerings
3 to former BellSouth customers only, although it would certainly be
4 reasonable for BellSouth to target future marketing efforts to former
5 customers.

6

7 Q. ~~IS MR. GILLAN'S RECOMMENDATION THAT THE COMMISSION~~
8 ~~PROHIBIT CONTACT WITH FORMER CUSTOMERS UNTIL 30 DAYS~~
9 ~~AFTER SERVICE HAS BEEN TRANSFERRED TO ANOTHER~~
10 ~~PROVIDER REASONABLE? (p. 10, lns. 14-15).~~

11 A. ~~No. Among other things, Mr. Gillan's recommendation includes a~~
12 ~~restriction on "customer service representatives." What Mr. Gillan may~~
13 ~~not realize is it is not unusual for ALECs to encourage customers to~~
14 ~~return service to BellSouth on a temporary basis when transferring~~
15 ~~service from another ALEC. For example, if a customer were leaving~~
16 ~~ALEC-A for ALEC-B, it is not unusual for ALEC-B to encourage the~~
17 ~~customer to first return service to BellSouth and ultimately transfer from~~
18 ~~BellSouth to ALEC-B. Thus, ALECs direct customers to interact with~~
19 ~~BellSouth, and BellSouth incurs costs to provision this temporary service,~~
20 ~~which ultimately benefits only the ALECs as the ALECs keep the~~
21 ~~customer going forward and retain the associated revenue stream.~~
22 ~~Mr. Ruscilli will also address the policy impacts of Mr. Gillan's faulty~~
23 ~~recommendation in further detail.~~

24

25 Q. MR. GALLAGHER DISCUSSES THE IMPACT OF LOSING "A 100-LINE

1 CUSTOMER.” (P. 6, Ins. 17-21). IS THIS DISCUSSION
2 APPROPRIATE IN THIS PROCEEDING?

3

4 A. No. Mr. Gallagher’s discussion has no bearing to the consideration of
5 BellSouth’s small business offerings, which is the focus of this
6 proceeding. Customers with 100 lines typically have monthly revenue
7 that exceeds \$3,000 and therefore such customers would not meet the
8 eligibility requirements for the Key Customer offering.

9 In fact, there are significant differences between large and small
10 business customers. Small business customers typically purchase from
11 1 to 8 business lines versus large business customers that may
12 purchase hundreds of lines. Large business customers also purchase
13 more complex services, which could include PBX (private branch
14 exchange) service at a given location, private line service, as well as
15 DSL service. Small business customers typically do not order these
16 complex services, especially not in the quantities that large business
17 customers do. Moreover, because large business customers generally
18 order higher volumes of complex services, they often require a single
19 point of contact with BellSouth. In contrast, a small business customer
20 typically does not require a single point of contact.

21

22 FCCA witness Gillan seems to acknowledge a distinction as well
23 because he suggests that contracts for DS1 or higher level of services
24 should be available for longer time periods than contracts for multi-line
25 POTs services. (Gillan, p. 9, Ins. 12-16). While BellSouth disagrees

1 with Mr. Gillan's suggestion that promotions for multi-line business POTS
2 service should be limited to 12 months, which I will discuss later in this
3 testimony; BellSouth agrees that different market offerings geared to
4 small and large business customers is necessary in today's competitive
5 market.

6

7 Q. MR. GALLAGHER CLAIMS THAT ALECS "CANNOT BEAT
8 DISCOUNTS" LIKE THE KEY CUSTOMER OFFERINGS WITHOUT
9 "PLACING THEIR FUTURES IN PERIL." (p. 10, Ins. 1-2). LIKEWISE,
10 MS. KENNEDY CLAIMS ALECS "WOULD NEVER BE ABLE TO
11 MATCH THE PROMOTIONAL PRICING BEING OFFERED BY
12 BELLSOUTH." (p. 4, Ins. 11-12). CAN YOU RESPOND?

13

14 A. Neither claim has any basis in reality. Attached as Exhibit CG-6 is a
15 sampling of ALEC offers, advertisements, and bills. ALECS in Florida
16 are aggressively marketing services and pricing their offerings well
17 below BellSouth's retail prices.

18

19 For example, Mpower's advertising reflects a \$24.00 rate for a business
20 line, which Mpower compares to a BellSouth rate of \$37.88. The
21 \$24.00 rate equates to an approximate 36% discount from the listed
22 BellSouth rate. Mpower also notes that its pricing reflects "3-year
23 contractual figures," demonstrating that ALECs also enter into long-term
24 contracts. Mpower's advertisement further states that the savings
25 reflected, "does not include the savings achieved from calls made in

1 [certain] area codes, that are FREE with Mpower.” Finally, Mpower’s
2 advertisement shows that it is not charging for hunting, which Mpower
3 compares to a BellSouth hunting charge of \$10 per line.

4
5 In another Mpower ad it quotes a \$26.00 rate per business line, which
6 Mpower compares to a BellSouth’s retail price of \$36.95, which reflects
7 a roughly 29% discount. This ad also demonstrates that Mpower offers
8 pricing that presumably varies based on geographic location. This ad
9 also shows free hunting compared to BellSouth’s \$10 per line rate and
10 indicates that Mpower does not charge for additional features such as
11 call forwarding/busy line and call forwarding/don’t answer as compared
12 to BellSouth’s charge of \$4.75 per feature.

13
14 Exhibit CG-6 includes samples of actual customer bills. A bill from
15 Epicus shows a multi-line price of \$29.95, which includes free hunting.
16 This bill also reflects a multi-line business discount in the amount of
17 \$4.49 per line. Thus, Epicus’ actual multi-line business price appears to
18 be \$25.46, which is 31% less than BellSouth’s tariff price of \$36.95 for a
19 multi-line business rate in rate group 12. A bill from Intermedia reflects
20 a per line price of \$20.40, which is 44% less than BellSouth’s \$36.95
21 multi-line business rate in rate group 12. A Business Solutions bill shows
22 business line rates of \$28.00 and \$22.50, which are 24% and 39% less
23 than BellSouth’s \$36.95 multi-line business rate in rate group 12. A bill
24 from FDN shows no monthly recurring cost for hunting; NewSouth’s bill
25 reflects a per line charge of \$22.82 (\$159.74 divided by 7) with hunting

1 charges of \$9.00 (\$36.00 divided by 4), which is 38% less than
2 BellSouth's tariffed per line charge and 10% less than BellSouth's
3 hunting rate (as compared to BellSouth's \$36.95 multi-line business rate
4 and \$10.00 hunting rate in rate group 12). Finally, an IDS "cost
5 analysis" compares its monthly rate of \$25.17 per line and \$8.00 for
6 hunting to BellSouth's \$36.95 monthly rate and \$10.00 hunting rate,
7 which 31% less than BellSouth's per line rate and 20% less than
8 BellSouth's hunting rate.

9
10 IDS advertises monthly savings of \$270.50 for a 6-line package, touting
11 that its rates are "30% off BellSouth's." An Allegiance "Proposal for
12 Service" offers a monthly business line charge of \$25.17 (31% less than
13 BellSouth's tariffed multi-line rate in rate group 12) with no additional
14 charge for hunting. Allegiance represents that over a three-year period,
15 it offers 39% savings over BellSouth's rates. Allegiance also note that
16 its pricing is based on "a two-year contract term."

17
18 Finally, ALECs Time Warner and AT&T Broadband waive installation
19 charges; AT&T Broadband offers hunting at no charge, and AT&T
20 Broadband bundles its offerings with different monthly rates depending
21 on whether the customer purchases the "Broadband Business Basic" the
22 "Broadband Business Bundle" or the "Broadband Business Bonus
23 Bundle," according to its Florida tariff. In sum, the notion that ALECs
24 are unable to compete with BellSouth's Key offerings simply cannot
25 stand.

1

2 Q. MR. GALLAGHER ALSO CLAIMS "ALECS COULD NOT SURVIVE
3 WERE THEY TO ADJUST PRICES TO LEVELS LOWER THAN
4 BELLSOUTH'S KEY CUSTOMER RATES." (p. 6, Ins. 4-6). HOW DO
5 YOU RESPOND?

6

7 A. This claim is unfounded. ALECS are thriving in Florida; in fact, Mr.
8 Gallagher's company, FDN, recently announced it had reached 100,000
9 lines over its three-year history. (See attached as CG-7 FDN press
10 release). During most of that three-year history, BellSouth offerings
11 similar to the January and June Key customer offerings were available.
12 ALECs aggressively market and price their services below BellSouth's --
13 touting discounts up to 40% -- and have been doing so before BellSouth
14 introduced its Key Customer offers. (See Exhibit CG-3 to my Direct
15 Testimony for Mpower flyer claiming 40% savings).

16

17 Q. HOW DO YOU RESPOND TO MR. GALLAGHER'S CONTENTION
18 THAT "BELLSOUTH CAN USE ITS MONOPOLY STATUS TO PEG
19 ALEC MARKET SHARE . . . IN THE GEOGRAPHY IT DESIRES." (p.
20 8, Ins. 4-6).

21

22 A. Mr. Gallagher has missed the mark. BellSouth serves all customers in
23 its territory -- both business and residential. FDN, and other ALECs in
24 stark contrast, can select specific geographic serving areas and
25 frequently choose not to serve residential customers. It defies logic to

1 contend that BellSouth can control ALEC market share in certain
2 geographic areas, when in fact ALECs themselves self-select the most
3 profitable locations in which to serve primarily business customers.

4

5 Q. MR. GALLAGHER ALSO CLAIMS THAT BELLSOUTH'S OFFERINGS
6 ARE DISCRIMINATORY BECAUSE A CUSTOMER IN A HOT WIRE
7 CENTER PAYS LESS FOR SERVICE THAN A CUSTOMER SERVED
8 OUT OF A WIRE CENTER THAT IS NOT DESIGNATED AS "HOT".
9 HOW DO YOU RESPOND?

10

11 A. Mr. Gallagher's claim is without basis. These customers are not
12 similarly situated, so charging them different prices is not discriminatory.
13 It is common to charge different prices in different geographic areas.
14 BellSouth's approved tariff rates in Florida already vary based upon rate
15 group. Consider the following: a multi-line business customer served out
16 of rate group 1 would pay a tariff rate of \$25.95 per line. The same
17 multi-line business customer in rate group 12 would pay a tariff rate of
18 \$36.95. If the business customer in rate group 12 receives a 20%
19 discount off the tariff rate, the result is a monthly rate of \$29.56, which
20 still exceeds the monthly rate in rate group 1. The simple reality is that
21 this Commission has approved different rates depending upon where a
22 customer lives.

23

24 Q. MR. GALLAGHER SUGGESTS THAT BELLSOUTH'S COMPETITIVE
25 OFFERS SHOULD BE LIMITED TO NO MORE THAN 120 DAYS. (p.

1 18, ln. 5). PLEASE COMMENT.

2

3 A. Mr. Gillan, who suggests that competitive offers can extend for 12
4 months to 36 months, contradicts Mr. Gallagher's suggestion. (Gillan, p.
5 9, Ins. 12-16). In addition, Mr. Gallagher conveniently ignores the fact
6 that ALECs offer long-term pricing of up to 36 months. (See CG-6,
7 Mpower "3 year contractual figures"). Limiting the length of time that
8 BellSouth makes competitive offers available would frustrate, rather than
9 encourage, competition.

10

11 Q. ~~HOW DO YOU RESPOND TO MS. KENNEDY CLAIMS (p. 9, Ins. 5-9)~~
12 ~~REGARDING CERTAIN BELLSOUTH'S ADVERTISEMENTS'?~~

13

14 A. ~~Ms. Kennedy erroneously claims that the size of the ads, the size of the~~
15 ~~type, and the number of pages of material sent to existing customers~~
16 ~~varies significantly from the ads sent to former customer. The ad that~~
17 ~~Ms. Kennedy attached as DK-4 is not attached in the size and format in~~
18 ~~which it was sent to customers. Both DK-3 and DK-4 are trifold~~
19 ~~pamphlets, which are the same approximate size. The ad sent to~~
20 ~~existing customers actually contains 5 page of substantive information,~~
21 ~~including the terms and conditions of the offering. Attached as GG-8 are~~
22 ~~page-by-page copies of the pamphlets in actual size. Contrary to Ms.~~
23 ~~Kennedy's claims, the ads are clearly comparable.~~

24

25 Q. ~~IS MS. KENNEDY'S SUGGESTION THAT BELLSOUTH LIMITED THE~~

1 TIME AN EXISTING CUSTOMER COULD TAKE ADVANTAGE OF KEY
2 CUSTOMER VALID?

3

4 A. No. BellSouth offered Key Customer to existing customers consistent
5 with the terms and conditions of its tariff filing with this Commission,
6 which was available through June 30, 2002. Moreover, the ad sent to
7 existing customers noted specifically that a customer's election of Key
8 Customer "is subject to and controlled by the provisions of BellSouth's
9 lawfully filed tariffs, including any changes therein as may be made from
10 time to time."

11

12 Q. DID BELLSOUTH SEND ANY SUBSEQUENT KEY CUSTOMER
13 ADVERTISEMENTS TO EXISTING CUSTOMERS?

14

15 A. Yes. Attached as CG-9 are copies of advertisements sent to existing
16 customers relating to BellSouth's June Key Customer offering. Both ads
17 note "Key Customer Program Term Election Agreement offer expires
18 December 31, 2002."

19

20 Q. MS. KENNEDY CLAIMS THAT NTC "HAS LOST 20% OF ITS FLORIDA
21 SALES EACH MONTH DUE TO THE KEY CUSTOMER PROMOTION."
22 PLEASE COMMENT.

23

24 A. Ms. Kennedy's explanation for this "loss" is that customers that "would
25 otherwise have changed service to Network Telephone's facilities-based

1 ~~service offerings . . . remained with BellSouth . . .” It is a mystery to me~~
2 ~~how there can be a customer “loss” when a customer has not actually~~
3 ~~changed service from BellSouth to Network Telephone or vice versa.~~
4 ~~Further, it is also not clear to me that Ms. Kennedy can legitimately link~~
5 ~~an alleged loss in sales volume to BellSouth’s Key customer offering.~~

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8

9 A. Yes.

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11 471030

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25

1 BY MS. MAYS:

2 Q Mr. Garcia, could you please provide a summary of
3 your testimony at this time?

4 A Yes. Good afternoon, Madam Chair and Commissioners.
5 My name is Carlos Garcia, and I am the market manager in
6 Florida for the in-bound small business services organization.
7 In this capacity I am the person that interacts with BellSouth
8 employees in Florida about operational questions relating to
9 the Key Customer promotion at issue here. My position also
10 requires that I analyze competitive market trends. I provide
11 customer care, and I support BellSouth sales employees in the
12 call centers.

13 My testimony addresses two major points from
14 first-hand experience. The first is the nature of the strong
15 competitive landscape BellSouth faces in Florida for the small
16 business customers. The second is to address how BellSouth Key
17 Customer contracts have not changed the level of competition
18 that BellSouth has experienced and continues to experience
19 daily. We have gone over the details of the Key Customer
20 contracts, but I will be glad to answer any questions.

21 Now, let me briefly illustrate the nature of the
22 competition in Florida. In my position, not a day goes by
23 without a customer contacting one of our call centers asking
24 about either a competitor's price or a marketing technique. As
25 exhibits, I have attached a representative sample of

1 competitive ads. In one of these ads, Mpower advertises a
2 business line for \$24 a month with free hunting. Our
3 equivalent tariff rates for the same line would have been 36.95
4 plus \$10 for the hunting service. If a customer signed up for
5 the current Key Customer offer for a two-year term, the rate
6 after the discount would be 33.26 a month for the line plus \$5
7 per month for hunting. If the customer signed up for the
8 current Key Customer for a three-year term, the rate after the
9 discount would have been 29.56 per month for the line without
10 any additional charge for the hunting service. This shows that
11 competitors offers are not only lower than BellSouth's tariff
12 rate, but also are lower than the BellSouth -- excuse me, than
13 the BellSouth rate under the current Key Customer offer.

14 In another sample, Intermedia lists a \$20.40 rate for
15 a business line. This rate is also lower than both the tariff
16 and the rate that would have been in place under the BellSouth
17 Key Customer offer.

18 I will also briefly discuss how competition has
19 steadily continued throughout the time that BellSouth has
20 offered the Key Customer promotion. For example, as we
21 discussed earlier, FDN announced in October 2002 that it had
22 achieved 100,000 lines in just 3.5 years of being in business,
23 which includes a time period during which the Key Customer
24 contracts were available. Also, the number of calls that
25 BellSouth receives in the call centers asking about competitive

1 offers has not declined at all during this time that the Key
2 Customer has been available.

3 In closing, BellSouth's Key Customer offers are a
4 direct result of the competition that has been and continues to
5 take place in Florida in the small business market. And even
6 with the Key Customer in place, other carriers have offered and
7 continue to offer customers lower rates and have experienced
8 line growth.

9 Thank you. That concludes my summary.

10 MS. MAYS: The witness is available for cross.

11 COMMISSIONER DEASON: Mr. Feil.

12 CROSS EXAMINATION

13 BY MR. FEIL:

14 Q You mentioned in your summary, Mr. Garcia, that
15 Mpower was making an offer. Do you know whether or not they
16 are still making that offer that you referred to in your
17 summary?

18 A They were when I was collecting the data.

19 Q But are they still doing it now?

20 A I don't know. They can change from any day to any
21 day.

22 Q Okay. If I look at your exhibits, and specifically I
23 am looking in CG-1, we have a list of eligible hot wire
24 centers. If I pick one of those hot wire centers, say, for
25 example, Brooksville. Could you tell me which competitive

1 offerings contained in CG-3 are being offered in that hot wire
2 center in Brooksville?

3 A Okay. The offers that I have compiled from all the
4 different competitors are not really broken down by wire center
5 specific. What I have done is I have gathered competitive ads
6 throughout the whole state, so you are going to see some that
7 are from the north, the south, the Orlando area, Palm Beach
8 areas, et cetera, but they are not really broken down
9 specifically by wire center.

10 Q Well, if that is the case, Mr. Garcia, how can you
11 tell me whether or not you are meeting or beating competitor
12 prices?

13 A I didn't say that we were beating the competitive
14 prices. The competitors are actually lower.

15 Q How do you know? You don't know what prices are
16 being offered in which wire centers.

17 A Well, based on the ads that I have attached, you will
18 see that some of them are actually \$23, \$20.40, where our
19 prices are 36.95 --

20 Q But you are missing -- Mr. Garcia, you don't know
21 which wire centers those offers pertain to, isn't that correct?

22 A Specifically by wire center, no, just by the region.

23 Q So you can't say for sure, you can't tell the
24 Commission that BellSouth is only meeting competitor prices,
25 not beating them?

1 A I can tell you --

2 Q So you can't tell me, Mr. Garcia, that in no instance
3 has BellSouth Key Customer rate been below -- excuse me, let me
4 rephrase that question.

5 You can't promise me that there have been no
6 instances where the Key Customer rate is below a competitive
7 offering for each one of these hot wire centers?

8 A I cannot promise you that, no. I don't think anyone
9 can.

10 Q Now, you have mentioned in your testimony, I believe
11 it is in your rebuttal, that BellSouth sends out -- has sent
12 out mailings promoting its Key Customer promotion, is that
13 correct?

14 A Yes, it is.

15 Q And some of those mailings were made to existing
16 customers and some of those mailings were made to ALEC
17 customers?

18 A Correct.

19 Q And can you tell me, Mr. Garcia, what criteria was
20 used to identify the existing BellSouth customers that were
21 given these mailings?

22 A I do believe that the criteria that was used was
23 whether or not they qualified for the Key Customer contracts,
24 whether they were within the range.

25 Q Was one of these mailings made to every single

1 eligible customer who was an existing BellSouth customer?

2 A That I would not be able to answer, I don't know.

3 Q So you don't know the answer. Okay. Isn't it
4 correct, Mr. Garcia, that BellSouth does not offer the Key
5 Customer discount to every in-bound call into its retail
6 center?

7 A Correct. In other words, what we do is based on the
8 nature of the call, in other words, the customer calls into the
9 in-bound center, based on whatever the specific question that
10 they have that is what we will address. Now, we do encourage
11 all our employees to take advantage of that opportunity to go
12 ahead and offer the Key Customer contract to every single call,
13 but I cannot tell you that we will have offered that on every
14 single call that comes in.

15 Q So is it fair to say that the retail calling agents
16 have a don't ask, don't tell policy?

17 A No, that is not the case. It is based on how the
18 call goes. Meaning if a customer calls in -- let me give you
19 an example. If a customer calls in and says I have a question
20 on my long distance charge, can you identify this call. And we
21 identified the call for them, and then the customer says, well,
22 thank you, that is all I needed. Well, we may not pursue any
23 other, you know, action. Now, if a customer, you know, starts
24 talking to us and we offer additional services, then we can
25 also include the Key Customer, as well. As a matter of fact,

1 we do encourage all of our employees to offer the Key Customer
2 contracts.

3 Q But it is not offered on every in-bound call,
4 correct?

5 A It depends on the nature of the call.

6 Q But it is not offered on every in-bound call,
7 correct?

8 A Correct.

9 MR. FEIL: I am eliminating questions here,
10 Commissioner. I'm trying to speed it up.

11 BY MR. FEIL:

12 Q Isn't it correct that one of the justifications that
13 BellSouth offered in its 271 proceeding was that it should have
14 long distance approval so customers could have the advantage of
15 one-stop shopping for telecommunications services?

16 A I believe so.

17 Q Isn't it true that it is a recognized marketing and
18 sales principle that customers have a strong tendency to
19 purchase from one provider if the products and services are
20 actually available from one provider?

21 A Some of them may, some of them may not.

22 Q That is not my question. My question is whether or
23 not it is a recognized marketing and sales concept that the
24 customers are going to tend to shop at one location from one
25 provider if they have the opportunity to do so?

1 A From a marketing point of view, yes.

2 Q Okay. On your rebuttal at Page 5, Line 4, you refer
3 to something Mr. Gallagher testified to regarding 100
4 customers. Or, excuse me, 100 line customers.

5 A Correct.

6 Q Couldn't Mr. Gallagher just as easily be referring to
7 10, 10-line customers?

8 A He may. I don't know what Mr. Gallagher's intention
9 was. But a customer with 100 lines will not typically be a
10 small business customer. That customer would probably be
11 assigned to a larger account where he would be able to qualify
12 for some other type of service like a CENTREX or a switchboard,
13 et cetera.

14 Q But as long as in the aggregate it was -- well,
15 withdraw that.

16 In the CLUB billing range, does each location get
17 evaluated for the criteria of the maximum criteria for
18 eligibility, or is it on a -- in other words, for the
19 eligibility criteria for a Key Customer, is it on a per
20 customer basis or is it on a per location basis?

21 A To be honest with you, the CLUB billing I'm not
22 familiar with it. The reason for that is because that is not a
23 product that we will offer on the in-bound channel. If a
24 customer called in and he is interested in CLUB billing, we
25 will transfer that call to another department to handle that.

1 so I'm not familiar with all the details for CLUB billing.

2 MR. FEIL: Nothing further.

3 MS. BANKS: Staff has no questions.

4 CHAIRMAN JABER: Commissioners, do you have any
5 questions of this witness? Redirect?

6 MS. MAYS: No, Madam Chair. Thank you.

7 CHAIRMAN JABER: Thank you. Mr. Garcia, thank you.

8 THE WITNESS: Thank you.

9 CHAIRMAN JABER: Exhibits. BellSouth, you have got
10 Exhibits 20 and 21.

11 MS. MAYS: Yes, Madam Chair, if we could have those
12 admitted.

13 CHAIRMAN JABER: Without objection, Exhibits 20
14 through 21 are admitted into the record.

15 (Exhibits 20 and 21 admitted into the record.)

16 MS. MAYS: Madam Chair, if it please the Commission,
17 there is one matter I wanted to take up before we called our
18 next witness. It had to do with a proprietary document
19 production that FDN made to BellSouth. We have consulted with
20 counsel for FDN, and would ask that the confidential document,
21 one confidential document request be admitted. If we could
22 have that identified and admitted into the record.

23 CHAIRMAN JABER: Pursuant to stipulation is what you
24 are saying?

25 MS. MAYS: Yes, Madam Chair.

1 CHAIRMAN JABER: Okay. And can you give me a short
2 title for that exhibit.

3 MS. MAYS: Yes, Madam Chair. It is the February
4 11th, 2003 FDN response to BellSouth 33.

5 CHAIRMAN JABER: 33?

6 MS. MAYS: 33, Yes, Madam Chair.

7 CHAIRMAN JABER: Hearing Exhibit 22 will be the
8 stipulated exhibit of the February 11th, 2003 FDN response to
9 BellSouth Interrogatory 33, and that will be admitted into the
10 record.

11 MS. MAYS: Thank you, Madam Chair.

12 (Exhibit 22 marked for identification and admitted
13 into the record.)

14 MS. MAYS: BellSouth's next witness will be Professor
15 Robert Pitofsky.

16 MS. WHITE: Madam Chair, while Professor Pitofsky is
17 coming to the stand, I have spoken with staff and gotten a
18 specific question they wanted answered on the CLUB billing as a
19 late-filed, along with a title, so I guess we should mark that
20 as an exhibit, a late-filed exhibit.

21 CHAIRMAN JABER: Thank you, Ms. White. Late-filed
22 Exhibit 23.

23 MS. WHITE: And the short title will be CLUB billing
24 information.

25 CHAIRMAN JABER: Okay. How much time do you think

1 you need?

2 MS. WHITE: How about a week, next Wednesday.

3 CHAIRMAN JABER: Late-filed Exhibit 23 will come in a
4 week from today.

5 MS. WHITE: And I can read the actual question if
6 that would -- because I'm not sure, I haven't had a chance to
7 tell Mr. Feil the specific question.

8 CHAIRMAN JABER: Go ahead and read it into the
9 record.

10 MS. WHITE: It's if a BellSouth CLUB billed Key
11 Customer adds or deletes services midstream in a contract, can
12 BellSouth accurately adjust the billing for the added or
13 deleted services on a location-specific basis? If so, how, and
14 are there any charges associated with that.

15 CHAIRMAN JABER: And that response is due February
16 25th. 26th. Today is the 19th, right? February 26th.

17 (Late-filed Exhibit 23 marked for identification.)

18 CHAIRMAN JABER: Now, were we skipping the stipulated
19 witnesses? Why don't we go ahead and address those, too.

20 MS. MAYS: Thank you, Madam Chair.

21 MR. FEIL: Actually, Madam Chair, I was going to ask,
22 I think we are going out of order here. I don't know that
23 there was a stipulation of Mr. Shell. He was next in the order
24 that I have in the prehearing order, and then Doctor Taylor in
25 terms of unstipulated witnesses.

1 CHAIRMAN JABER: Yes, that caught my attention, too.
2 I just assumed you all had you agreed on a different order.

3 MR. FEIL: I wasn't consulted, no, ma'am.

4 MS. MAYS: I'm sorry, let me just check my copy of
5 the order.

6 CHAIRMAN JABER: Okay. It doesn't matter. Do you
7 have Mr. Shell here? I am looking at Page 6 of the order, too.

8 MS. WHITE: We can put Mr. Shell up. I think we were
9 just -- we both got ourselves a little confused about the order
10 of the witnesses. So, we would be happy to put Mr. Shell up
11 now.

12 CHAIRMAN JABER: I'm sorry, Professor.

13 W. BERNARD SHELL

14 was called as a witness on behalf of BellSouth
15 Telecommunications, Inc, and, having been duly sworn, testified
16 as follows:

17 DIRECT EXAMINATION

18 BY MS. WHITE:

19 Q Mr. Shell, could you please state your name and
20 address for the record?

21 A Yes. My name is Bernard Shell. My address is 675
22 West Peachtree Street, Atlanta, Georgia.

23 Q And by whom are you employed and in what capacity?

24 A I am employed by BellSouth Telecommunications as a
25 manager in the finance department.

1 Q And have you caused to be prefiled in this case
2 direct testimony consisting of ten pages?

3 A That is correct.

4 Q Do you have any changes to that direct testimony?

5 A No, I do not.

6 Q If I were to ask you the questions contained in your
7 direct testimony today, would your answers be the same?

8 A Yes, they would.

9 MS. WHITE: I would ask that Mr. Shell's direct
10 testimony be entered into the record as though read from the
11 stand.

12 CHAIRMAN JABER: The prefiled direct testimony of W.
13 Bernard Shell shall be inserted into the record as though read.

14 BY MS. WHITE:

15 Q And, Mr. Shell, did you have two exhibits attached to
16 your direct testimony labeled WBS-1 and WBS-2?

17 A Yes, I did.

18 MS. WHITE: And, Madam Chair, on WBS-1 there was a
19 typographical error. I have provided the revised corrected
20 copy to Mr. Feil and to staff, and I can hand that out now.

21 BY MS. WHITE:

22 Q And I would ask that with that one change, Mr. Shell,
23 did you have any other changes to your direct Exhibits WBS-1
24 and 2?

25 A No, I did do not.

1 MS. WHITE: And WBS-1 is a proprietary exhibit, so I
2 am handing it out in red folders. I would ask that Mr. Shell's
3 direct exhibits be marked for identification.

4 CHAIRMAN JABER: WBS-1, since that is a confidential
5 exhibit, let's identify that separately as Exhibit 24. And
6 Composite Exhibit 25 will be used for WBS-2 and WBS-3.

7 Mr. Shell, you have a correction?

8 THE WITNESS: WBS-2 is also proprietary. I just
9 wanted to make that mention. I didn't know if you had --

10 MS. WHITE: I apologize.

11 THE WITNESS: And 3. WBS-2 and 3 are both -- excuse
12 me.

13 MS. WHITE: 3 is gone, remember.

14 THE WITNESS: Well, she mentioned it. I just wanted
15 to mention that.

16 MS. WHITE: WBS-1 and BS-2. I mean, BS-2 has not
17 changed, and that was filed with the testimony as a proprietary
18 exhibit. But the revised -- you may want to leave it as a
19 separate, since WBS-1 is revised.

20 CHAIRMAN JABER: Thank you, Ms. White. Let's reflect
21 that WBS-1 is a confidential exhibit and it has been revised,
22 and that is identified as Hearing Exhibit 24. WBS-2 is also a
23 confidential exhibit, and that is identified as Hearing Exhibit
24 25.

25 MS. WHITE: Thank you, Madam Chair.

1 (Exhibit 24 and 25 marked for identification.)

2 BY MS. WHITE:

3 Q Now, Mr. Shell, you also had rebuttal testimony filed
4 in this case consisting of four pages, and also had an exhibit
5 attached to that. Is it correct that we are withdrawing that
6 testimony and that exhibit on the basis of the fact that Ms.
7 Kennedy and Mr. Gillan are no longer testifying in this case?

8 A That is correct.

9 MS. WHITE: So we will only have Mr. Shell's direct
10 testimony.

11 CHAIRMAN JABER: Thank you.

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1 **BELLSOUTH TELECOMMUNICATIONS, INC.**
2 **DIRECT TESTIMONY OF W. BERNARD SHELL**
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 W. Bernard Shell. My business address is 675 W. Peachtree St., N.E.,
10 Atlanta, Georgia. I am a Manager in the Finance Department of BellSouth
11 Telecommunications, Inc. ("BellSouth"). My area of responsibility is the development of
12 economic costs.

13
14 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL**
15 **BACKGROUND AND WORK EXPERIENCE.**

16
17 A. I attended Clemson University, graduating with a Bachelor of Science Degree in
18 Electrical Engineering in 1981. I received a Masters Degree in Business Administration
19 from Georgia State University in 1997.

20
21 My career with BellSouth spans over twenty years. My initial employment was with
22 Southern Bell in 1981, in Columbia, South Carolina in the Network Department as an
23 Equipment Engineer. In that capacity, I was responsible for the ordering and installation
24 of central office equipment. In 1984, I transferred to the Rates and Tariffs group in
25 Atlanta, Georgia where I was either directly or indirectly responsible for the rates, costs,

1 tariffs, and implementation of services. During my time in that organization, I worked
 2 with many services/offerings, such as Local Exchange Service, Service Order Charges,
 3 Operator Services, Mobile Interconnection and Inside Wire. I moved to the
 4 Interconnection Marketing Unit in 1995, where I had various responsibilities, including
 5 negotiating with Alternative Local Exchange Companies (“ALECs”), developing pricing
 6 strategies, and product managing Collocation. In December 2000, I moved to a position
 7 in the cost organization, a part of the Finance Department. My current responsibilities
 8 include cost methodology development and implementation.

9

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

11

12 A. My testimony responds to issues 2(iv) and 2(v) regarding the January and June Key
 13 Customer offerings in Florida:

14 **Issue 2(iv) Is the BellSouth Key Customer tariff filing (Tariff**
 15 **Number T-020035)¹ unfair, anticompetitive, or**
 16 **discriminatory under the criteria, if any, established**
 17 **pursuant to Issues 2(i), 2(ii), and 2(iii)?**

18

19 **Issue 2(v) Is the BellSouth Key Customer tariff filing**
 20 **(Tariff Number T-020595² or a subsequent tariff filing**
 21 **that extends the expiration date thereof) unfair,**
 22 **anticompetitive, or discriminatory under the criteria, if**

23

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

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

1 **any, established pursuant to Issues 2(i), 2(ii), and**
2 **2(iii)?**

3

4 The purpose of my testimony is to explain the analysis BellSouth performed to support
5 the prices offered in the Key Customer offerings, including the methodology used to
6 produce the cost component of the analysis. This analysis proves that the January and
7 June Key Customer offerings result in BellSouth providing services at rates that are at or
8 above Total Service Long Run Incremental Cost (“TSLRIC”).

9

10 **Q. WHAT TYPE OF ANALYSIS DID BELLSOUTH PERFORM TO PROVE**
11 **THAT THE JANUARY AND JUNE KEY CUSTOMER OFFERINGS**
12 **RESULT IN BELLSOUTH PROVIDING SERVICES AT RATES THAT ARE**
13 **AT OR ABOVE TSLRIC?**

14

15 A. The following analysis was performed for the January Key Customer offering which
16 provided a maximum discount of 25% off the standard tariffed rates for Key-eligible
17 services. BellSouth first evaluated the 1FB business service line (“1FB”) to ensure that it
18 would be above cost in all rate groups when discounted at the maximum level. No
19 features or other services were included in this test. The subscriber line charge (“SLC”)
20 was added to the discounted tariff rate. The SLC recovers the interstate portion of the
21 loop costs from an end user. The costs used for this test were the statewide average
22 Unbundled Network Element (“UNE”) rates for the loop-port combination plus usage
23 ordered by the Florida Public Service Commission (Order No. PSC-01-2051-FOF-
24 TP, dated October 18, 2001) in Docket No. 990649-TP. These rates were based on
25 Total Element Long Run Incremental Cost (“TELRIC”) methodology and used as a

1 surrogate for the 1FB cost. While the appropriate cost standard is TSLRIC, the
2 statewide average UNE rates were used as a conservative approach. Given that
3 TELRIC typically results in higher costs than TSLRIC for business service lines, this test
4 proved that the discounted 1FB is above TSLRIC in all rate groups. A description of
5 how TELRIC differs from TSLRIC is provided later in this testimony.

6
7 Next, BellSouth identified the rate elements or USOCs producing 99.9% of the revenue
8 from retail customers matching the guidelines described in the testimony of BellSouth
9 witness Steven Bigelow. The maximum discount for the January Key Customer offering
10 of (25%) was applied to the prices of these individual rate elements. These discounted
11 prices were then compared to the costs of the rate elements. TSLRIC was used for all
12 rate elements except for the ones associated with business service lines where TELRIC
13 was used. Based on this comparison, one of the following three scenarios could occur:

14

- 15 • If the cost does not exceed the discounted price, there is no need
16 for further tests.
- 17 • If the cost exceeded the discounted price and if the rate element
18 was a stand-alone service, customers with that service were not
19 eligible for the January Key Customer offering, and while
20 customers with that service could participate in the June Key
21 Customer offering, the revenue from that service was not used to
22 determine the customer's qualification for the June Key Customer
23 offering and the customer did not receive June Key Customer
24 discounts for that service.
- 25 • If the cost exceeded the discounted price and if the rate element

1 was not a stand-alone service, a typical configuration for the
2 target market or a minimal configuration was developed to
3 determine if the discounted price of the service in a typical or
4 minimal configuration was above cost. If the price/cost test of
5 this configuration showed the costs were greater than the
6 discounted prices, customers with that service were not eligible
7 for the January Key Customer offering, and while customers with
8 that service could participate in the June Key Customer offering,
9 the revenue from that service was not used to determine the
10 customer's qualification for the June Key Customer offering and
11 the customer did not receive June Key Customer discounts for
12 that service.

13

14 The above analysis proves that the January Key Customer offering results in BellSouth
15 providing services at rates that are at or above TSLRIC. Moreover, if the January Key
16 Customer offering, which has a maximum discount of 25%, results in discounted rates
17 that are at or above TSLRIC, then clearly the June Key Customer offering, which has a
18 lower maximum discount of 20%, also results in rates that are at or above TSLRIC.

19

20 **Q. YOU MENTIONED THAT COSTS WERE PART OF THE ANALYSIS. HOW**
21 **WERE THESE COSTS DERIVED?**

22

23 A. BellSouth used existing cost studies originally conducted to support tariff filings in its
24 analysis. The methodology that provides the foundation for these costs is TSLRIC
25 methodology, except that, as explained above, UNE rates were used as a surrogate for

1 the business service lines.

2

3 **Q. PLEASE EXPLAIN TSLRIC METHODOLOGY IN MORE DETAIL.**

4

5 A. TSLRIC uses incremental costing techniques to appropriately identify the costs
6 associated with providing services. Incremental cost methodology is based on cost
7 causation and thus, only considers costs directly caused by expanding production of a
8 service, or alternatively, costs saved by reducing production levels of a service. For
9 TSLRIC, incremental cost is calculated for the entire volume of a service. Specifically,
10 TSLRIC methodology considers all volume sensitive and volume insensitive costs
11 directly caused by and associated with that service. Additionally, long run incremental
12 cost studies (such as for TSLRIC) ensure that the time period studied is sufficient to
13 capture all forward-looking costs affected by the business decision being studied. In
14 other words, costs developed based on the TSLRIC methodology identify the
15 economically proper lower bound for pricing a service (and the lower bound for the
16 revenue produced by a service, when volume insensitive costs are included). Thus, rates
17 set at or above TSLRIC prevent cross-subsidization.

18

19 **Q. HOW DOES THE TELRIC METHODOLOGY DIFFER FROM THE TSLRIC**
20 **METHODOLOGY REFERENCED IN THE FLORIDA STATUTES?**

21

22 A. TELRIC methodology was defined by the Federal Communications Commission
23 (“FCC”) in its Local Competition First Report and Order (FCC Order 96-352; CC
24 Docket No. 96-98). From a cost methodology perspective, TELRIC methodology is
25 similar to TSLRIC methodology; however, the cost object being studied is different.

1 TSLRIC is used for services while TELRIC is used for network components or
2 elements. Under TELRIC, costs that are shared by a service may be direct to a network
3 element. Additionally, TELRIC methodology allows a reasonable allocation of shared
4 and common costs; costs that are excluded from a TSLRIC study. Thus, TELRIC
5 typically results in higher costs than TSLRIC for business service lines. Therefore, if the
6 Key Customer Promotion results in a positive margin using TELRIC for business service
7 lines, it would result in a positive margin using TSLRIC.

8

9 **Q. PLEASE DESCRIBE THE 1FB ANALYSIS MENTIONED ABOVE IN MORE**
10 **DETAIL.**

11

12 A. The 1FB analysis is attached to my testimony as Exhibit WBS-1. It shows the following:

- 13 • tariff rates by rate group
- 14 • tariff rates plus the subscriber line charge/end user common line charge
- 15 • the discounted revenue (discounting only the tariff rate)
- 16 • the TELRIC-based UNE rates as ordered by the Florida Commission on October
17 18, 2001
- 18 • the absolute margin and the percent margin after the maximum January Key
19 Customer discount of 25% is applied [as explained earlier, the June Key Customer
20 offering provided a lower maximum discount of 20%]

21 This test proves that the discounted 1FB rate is above cost in all rate groups.

22 Additionally, since service order charges will be waived during the promotion, this exhibit
23 also shows a per-month service order cost that would need to be considered in the
24 analysis. Given that the margins are significantly more than this per-month cost, it is
25 obvious that the discounted 1FB remains above cost.

1 **Q. PLEASE DESCRIBE THE INDIVIDUAL RATE ELEMENT TEST**
2 **CONTAINED IN EXHIBIT WBS-2.**

3

4 A. For the individual rate element test, BellSouth applied the maximum January Key
5 Customer discount of 25% to the prices of the individual rate elements that were
6 identified in the process discussed in the testimony of BellSouth witness Steven Bigelow.
7 These discounted prices were then compared to the costs of the rate elements. This can
8 be seen on the first seven pages of Exhibit WBS-2, which are labeled SBS-FL. This
9 spreadsheet shows the following:

10

- 11 • Column 1: the individual rate elements tested
- 12 • Column 2: a description of the rate elements
- 13 • Column 3: the quantity of rate elements in service
- 14 • Column 4: the monthly revenue associated with the rate elements
- 15 • Column 5: the type of rate used (tariff or calculated using revenue divided by
16 quantity)
- 17 • Column 6: the recurring rate for the rate element
- 18 • Column 7: the nonrecurring cost for the rate element, if applicable
- 19 • Column 8: the recurring cost for the rate element
- 20 • Column 9: the percent margin for the rate element

21

22 Based on this comparison, if the discounted rate element price exceeded the rate element
23 cost, no further testing was done for that rate element. It should be noted that this is a
24 very conservative test in that it includes the service provisioning nonrecurring costs,
25 where applicable, but it shows no nonrecurring charges. In reality, however, the service

1 provisioning nonrecurring charges were not waived, and BellSouth collected more
2 revenue than shown in this analysis. If the service provisioning nonrecurring charges
3 were included in the analysis, the positive margin would be even greater.

4
5 If the comparison showed that the cost exceeded the discounted price and the rate
6 element was a stand-alone service, customers with that service were not eligible for the
7 January Key Customer offering, and while customers with that service could participate
8 in the June Key Customer offering, the revenue from that service was not used to
9 determine the customer's qualification for the June Key Customer offering and the
10 customer did not receive June Key Customer discounts for that service.

11
12 If the comparison showed that the cost exceeded the discounted price and the rate
13 element was not a stand-alone service, a typical configuration for the target market or a
14 minimal configuration was developed to determine if the discounted price of the service
15 in a typical or minimal configuration was above cost.

16

17 **Q. PLEASE DESCRIBE THE CONFIGURATION TESTS CONTAINED IN**
18 **EXHIBIT WBS-2.**

19

20 A. The configuration tests are shown on pages eight through seventeen of Exhibit WBS-2
21 and are further described in the testimony of Mr. Steven Bigelow. This price/cost test
22 was done when the discounted price of a rate element is below cost.

23

24 The price/cost test determines if the configuration utilizing these rate elements produces
25 revenues greater than costs when using the Key Customer discount. As can be seen,

1 each of the configurations tested yields a positive margin.

2

3 **Q. WHAT CONCLUSION SHOULD BE MADE AFTER REVIEWING THE**
4 **ANALYSIS?**

5

6 A. The January and June Key Customer offering result in BellSouth providing services at
7 rates that are at or above TSLRIC.

8

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

10

11 A. Yes.

12

13

14

15

16

17

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19

20

21

22

23

24

25

1 BY MS. WHITE:

2 Q Mr. Shell, do you have a summary to give?

3 A Yes, I do.

4 Q Thank you. Would you proceed?

5 A Okay. Good afternoon, Madam Chair, Commissioners.

6 The purpose of my testimony is to explain the analysis
7 BellSouth performed to support the prices offered in the Key
8 Customer offering, including the methodology used to produce
9 the cost components of the analysis. This analysis proves that
10 the January and June Key Customer offerings result in BellSouth
11 providing services at rates that are at or above total service
12 long-run incremental cost, TSLRIC. BellSouth performed an
13 analysis for the January Key Customer offering which provided
14 discounts of 10 percent and 25 percent off the standard tariff
15 rate for key eligible services depending upon the term of the
16 agreement signed.

17 First, BellSouth evaluated the 1-FB business service
18 to ensure that it would be above cost in all rate groups when
19 discounted at the 25 percent level. The 1-FB includes the loop
20 to the customer's location, local switching, and interoffice
21 usage. The costs used for this test were the statewide average
22 unbundled network elements rates for loop/port combination plus
23 usage ordered by this Commission in Order Number
24 PSC-01-2051-FOF-TP, dated October 18th, 2001, in Docket Number
25 990649-TP. These rates were based on total element long-run

1 incremental cost, TELRIC methodology, and used as a surrogate
2 for the 1-FB cost. While the appropriate cost standard is
3 TSLRIC, the statewide average UNE rates were used as a
4 conservative approach. Given that TELRIC typically results in
5 a higher cost than TSLRIC for business services, and the
6 analysis used in TELRIC results in a positive margin, it would
7 also result in a positive margin using TSLRIC.

8 Next, BellSouth identified the rate elements, or
9 USOCs producing 99.9 percent of the revenue from retail
10 customers matching the Key Customer guidelines. The discount
11 of 25 percent was applied to the prices of the individual rate
12 elements. These discounted prices were then compared to the
13 cost of the rate elements. TSLRIC was used for all rate
14 elements except the ones associated with business service lines
15 where TELRIC was used. The TSLRIC studies used were the ones
16 conducted to support the tariff filings for these rate
17 elements.

18 Based on this comparison, if the discounted rate
19 element price exceeded the cost, no further testing was done.
20 If the comparison showed that the cost exceeded the discounted
21 price, and the rate element was a stand-alone service, that
22 rate element was excluded from Key Customer offerings. If the
23 comparison showed that the cost exceeded the discounted price,
24 and the rate element was not a stand-alone service, a typical
25 or minimal configuration was developed to determine if the

1 A Let me answer it as yes and no. Again, I mentioned
2 we have TSLRIC and TELRIC, and as you may or may not know,
3 TELRIC does include an allocation of shared and common costs.

4 Q Well, I was just referring to WBS-2.

5 A Okay. Excuse me, within WBS-2 there are some
6 business service lines, as well. In fact, the 1-FB is
7 included. The first analysis was 1-FB alone, which was just to
8 verify as the rates vary by rate group, we wanted to make sure
9 that all of those covered costs. And then we did a rate
10 element by rate element analysis which included the 1-FB and
11 all business lines, so there would be some business lines in
12 there, as well.

13 Q So you are saying that for those business lines,
14 there are some allocated costs in WBS-2, is that what you are
15 saying?

16 A That is correct. I'm saying that the number we used
17 again was the rate ordered by this Commission in this order in
18 October 18th, 2001, and that is why we are saying the TELRIC
19 number used was a conservative number because obviously it is
20 greater than the TSLRIC. So if it passed with TELRIC it would
21 pass with TSLRIC.

22 Q Well, included in WBS-2 are there actual direct costs
23 or is this just incremental costs as you have said?

24 A Now, I guess I may be -- I'm sorry, can I ask
25 directly, I guess I would say direct cost is there. My

1 definition of incremental cost is that for services that it is
2 the direct cost associated with the service. It is on an
3 incremental basis, but it is the direct cost directly
4 attributed to the production of the service.

5 Q So you said direct incremental cost is included in
6 here, did I understand correctly?

7 A Yes. And I say that in terms of the cost directly
8 attributed to this service being offered is included.

9 Q But there are direct costs and allocated costs not
10 included in here associated with BellSouth providing a service
11 because this is only incremental cost, is that a correct
12 statement?

13 A If you are asking me -- I'm just clarifying. Are you
14 asking me if there are embedded costs here?

15 Q Are there embedded direct and allocated costs
16 included in this, yes?

17 A We have no embedded costs, to answer that question,
18 in this cost. And it is not appropriate to be there because
19 embedded costs are not used in pricing tariffed services to
20 UNEs or any service.

21 Q What is your definition of embedded costs?

22 A Embedded costs are costs that the company has on its
23 books from keeping accounting records of what the costs have
24 occurred the previous year. Costs that have already occurred,
25 not the costs that will be produced or that you will incur as a

1 result of offering a new service, which is incremental cost,
2 which is all we -- every time we do a cost study it is based on
3 either, based on incremental costs, not embedded costs.

4 Q Okay. In WBS-1 where you calculated the 1-FB rate,
5 isn't it correct that you used an average statewide TELRIC
6 rate?

7 A That is correct.

8 Q So you did not differentiate by zone, Zone 1 through
9 Zone 3 and run your analysis that way, isn't that correct?

10 A That is correct, because we don't believe it is
11 appropriate to do it on a zone. Statewide average better
12 represents the cost that is typically a tariff-related cost as
13 opposed to zones.

14 Q Aren't there cost differences associated with the
15 UNEs purchased in different zones?

16 A Yes. Yes, they are. And, again, we used the TELRIC
17 as a surrogate for the 1-FB. If we had used the TSLRIC for the
18 1-FB, that would be a statewide cost. So we felt like using
19 the TELRIC statewide average number would be comparable to
20 using the TSLRIC average number. All the other costs in this
21 analysis are statewide average numbers, which is typically what
22 is used for a tariffed item, which is what we are dealing with.

23 Q Did you analyze the distribution of the rate
24 grapes (sic) -- (Laughter.)

25 A No. I didn't look at the grapes.

1 Q How about the peaches or the oranges? Excuse me.

2 Did you analyze the distribution of the rate groups,
3 retail rate groups across BellSouth's UNE zones?

4 A No. No. It would be very difficult the way the
5 structure is now. The zones are by wire center cost, it would
6 be very difficult to do it on a rate group basis.

7 Q Mr. Casey in his testimony refers to a \$100 charge
8 that represents an incremental cost associated with
9 administering the Key Customer tariff at least for the January
10 program. Am I correct in that that incremental cost is not
11 included in here?

12 A You are correct, that cost is not in there. But we
13 did look at that analysis, and I believe it was \$100. And if
14 you were to take any of our typical configurations and look at
15 the margin in that study, and if you take the \$100 and divide
16 it by 36 as we have stated to be recovered over the life of the
17 agreement, that additional cost would be more than recovered in
18 any typical scenario that we looked at.

19 Q Why are you including it, why would you include it
20 under WBS-1 rather than -- excuse me, under WBS-2 rather than
21 WBS-1?

22 A You could do it either way. Again, WBS-1 was just a
23 preliminary analysis to see before it was even offered. We
24 have 1-FBs that vary by rate group. That is the minimum. Will
25 it pass there. And then the analysis which is really the key

1 one is the WBS-2. That really made the final decisions.

2 Q Did you include in any of your analysis here in WBS-1
3 or WBS-2 any projected revenue that may vary with the take rate
4 of the Key Customer program?

5 A No, we didn't. Right now thinking about it, I don't
6 see how a take rate would impact. The cost is the cost. It is
7 based on the projected demand of the tariffed offering when it
8 is put in place. There wouldn't vary. The only thing that
9 might vary is the number of units you have out there and that
10 would affect the total revenue and total cost, but the unit
11 rate and the unit cost would not vary based on the demand.

12 Q Have you incorporated in here any BellSouth
13 promotional programs that may be offered in conjunction with
14 and at the same time as the Key Customer programs?

15 A In this current analysis we only looked at Key
16 Customer, we did not do a multiple promotion analysis here. It
17 is just for Key Customer.

18 Q Did anybody suggest to you that there were multiple
19 promotions that could be tacked onto a Key Customer promotion?

20 A It is my understanding that there are other
21 promotions that could apply. And before the other promotions
22 are offered, an analysis is done to ensure that by offering
23 this other promotion we would still be above cost and not
24 providing the service below TSLRIC.

25 Q Is it your testimony that you have done such an

1 analysis or you are saying that BellSouth does?

2 A It is my testimony that BellSouth does, and I did a
3 preliminary look at the ones I was familiar with, and they all
4 were all above in that one. But I would not be the one that
5 would be the focal -- you know, the one that would primarily do
6 that. The other groups before they offered it would look at
7 that analysis. And, again, I looked at a few of them that I
8 was aware of and they were above.

9 Q Which ones were those?

10 A I think CENTREX may have been one. Since we had the
11 typical analysis, I probably looked at the CENTREX offering to
12 determine if, for example, nonrecurring was waived would it
13 still be above cost. And as you know, in our typical as well
14 as the analysis on WBS-2, we included nonrecurring costs in
15 there. And even without the nonrecurring rate and the
16 discounted recurring rate, we still were above cost. So most
17 of the additional promotions I saw was discounting, or
18 deleting, or eliminating the nonrecurring charges. And what
19 I'm saying is that we have already done that within our
20 conservative view. So if all of those we were looking at then
21 we more than cover our costs just by looking at that one.

22 Q In looking at -- actually let me ask this question.
23 Did you personally look at and run through your model the
24 Select Points program?

25 A No, I did not look at Select. I'm not familiar with

1 that one.

2 MR. FEIL: I have nothing further.

3 CHAIRMAN JABER: Staff.

4 CROSS EXAMINATION

5 BY MS. BANKS:

6 Q Good afternoon, Mr. Shell.

7 A Good afternoon.

8 Q I am Felicia Banks, and I have a few questions to ask
9 on behalf of staff.

10 I want to first verify that you have your prefiled
11 direct?

12 A I do.

13 Q As you know, the two exhibits that were attached to
14 your direct testimony were filed as proprietary and they have
15 been marked for identification. I want to let you and your
16 counsel know that I will be referring to one of those
17 confidential documents. In particular, I will be asking you
18 about a portion of the exhibit attached to your direct
19 testimony labeled as WBS-2, which has been marked as Exhibit
20 25.

21 A Okay.

22 Q In asking you these questions, I will be careful not
23 to divulge any confidential information. I ask that you be
24 mindful as well when you were answering my questions. Your
25 attorney has been handed a copy of what has been marked as

1 Exhibit 25, which is also Exhibit WBS-2 attached to your direct
2 testimony. And this direct testimony was filed on October 23,
3 2002, is that correct?

4 A I believe so. Yes, that is correct.

5 Q Okay. I would like to first, I guess, make reference
6 to the first seven pages of that exhibit. Would you agree that
7 the first seven pages of what is in front of you are labeled
8 SBS-FL?

9 A That is correct.

10 Q Without divulging any confidential information that
11 is in the exhibit, would you agree with me that Page 8 of your
12 direct testimony describe what this exhibit represents?

13 A I'm sorry, I couldn't catch all the words that you
14 said.

15 Q Without divulging any of the information in the
16 confidential information exhibit, would you agree with me that
17 Page 8 represents or describes what the exhibit is?

18 A Yes, it does.

19 Q Okay. In just a moment I will ask you to look at a
20 similar document. If you would just lay that particular
21 exhibit away for a moment and we will come back to it. This
22 next exhibit, what I am handing out -- what staff has handed
23 out is a part of Staff's Composite Exhibit Number 4, which is
24 also a confidential exhibit. And it is BellSouth's response to
25 Staff's First Request for Production Document Number 4 that was

1 filed here with the Commission in March of last year. I would
2 like to ask you about the first five pages of that exhibit.

3 A I don't have a copy right now.

4 Q I'm sorry.

5 A Okay.

6 Q Okay. Would you agree with me that the first five
7 pages are labeled as SBS-FL?

8 A Yes.

9 Q And without divulging any of the confidential
10 information, can you describe what this exhibit represents?

11 A Yes. What this exhibit represents is, like I had
12 mentioned earlier, as a result of the 1-FB analysis passing an
13 extract of rate elements or USOCs was extracted from our
14 system, and they culled that down to approximately 208 that
15 were producing 99.9 percent of the revenue of these Key
16 eligible customers. And what this represents is it shows the
17 USOCs that represented that amount of money and it showed --
18 and it gives a description of the services, the quantity
19 existing at the time, the revenue, the rate costs, and so
20 forth. So it produces a margin analysis of those elements that
21 were identified by looking at the Key eligible customers and
22 culling it down to those that produce 99 percent of the
23 revenue.

24 Q Okay. So would you say that the Composite Exhibit
25 Number 4, which was filed in March of last year, and Exhibit

1 Number 25, which is WBS-2, and that was filed in October of
2 last year, would you say that these exhibits are identical?

3 A They are intended to show the same thing. What the
4 difference is is the one that I filed that there was some items
5 and I guess I would call it Exhibit 4. I guess staff -- I'm
6 not sure what staff called it, but the one that you just handed
7 out. The earlier version, there were some things in it that we
8 felt needed to be corrected. The end result did not change,
9 the services still were above TSLRIC.

10 There were certain changes such as the tariffed rate
11 used in this one. For example, for the 1-FB or the MFB was
12 based on an earlier version tariff. We corrected that in the
13 one we filed so that it was the most current tariffed rate.
14 Some other changes were the UNE-P statewide average was based
15 on a number that was not current. We updated that. We added
16 the nonrecurring, service specific nonrecurring cost to our
17 version which made some changes to it which made it really more
18 conservative by adding costs without the associated rate. And
19 we did some other changes to it. The result was the same, but
20 we did update it to make it more current.

21 Q So as a result of that, those updates, did the costs
22 change at all?

23 A The only cost that changed was, again, it didn't
24 change, but we added nonrecurring costs. Now, we had a couple
25 of elements like a rate element called TTT, I believe that is

1 the one, it is toll terminal. The concept for the statewide
2 UNE-P is that you have a loop/port and usage. And at the
3 time -- let me get this straight. I think it showed total
4 loop/port usage, but since TTT has the line rate and bills
5 total usage, the only elements required from the UNE-P was a
6 loop and a port, not the usage.

7 So in the earlier version it used the complete
8 loop/port usage. In my version that we filed in my testimony,
9 it only included loop/port, so that was one minor change. But
10 the actual TSLRIC cost did not change. We added service
11 specific nonrecurring costs. And for a couple of rate
12 elements, as I described here, we tweaked the statewide average
13 UNE-P to more appropriately match what the service was
14 offering. That was the only change.

15 MS. BANKS: Could you give me one moment, Mr. Shell?

16 THE WITNESS: Yes.

17 BY MS. BANKS:

18 Q Mr. Shell, just following up with my reference
19 earlier about a change in the costs. Are you absolutely
20 certain that there are no costs -- there was no cost change
21 between the updates of the initial exhibit versus the one, they
22 are both labeled SBS-FL referenced?

23 A Well, let me think about it for just a minute. There
24 was a correction in the typical. The costs didn't change, but
25 it was shown inaccurately. I'm just trying to remember which

1 one. I think it was the CENTREX.

2 Q If I could interject, let me just, I guess, go to a
3 particular example that I think we need clarification on.

4 A Okay.

5 Q And this is actually -- looking at Staff's Composite
6 Exhibit Number 4, which is the second one that you were handed?

7 A Okay.

8 Q Are you there?

9 A Yes. I have that one, yes.

10 Q Okay. And this document was filed in March of last
11 year. If you would find the row which has the USOC TM-5?

12 A TM-5?

13 Q Yes.

14 A Okay.

15 Q Which should be, I think, about the 10th row down
16 from the top of that page. And I'm not looking for you to give
17 me a numerical values, I just want you to look at a figure
18 there. And I would just caution you not to divulge what that
19 figure is.

20 A Okay.

21 Q And if you make reference to the column labeled as
22 recurring costs for that respective row line of TM-5?

23 A Yes, I see it.

24 Q And if you would just make a mental note of that.

25 A Okay.

1 Q Now, if we can go to the other exhibit which has been
2 labeled as Exhibit 25, which has portions of the exhibit
3 attached to your direct testimony, WBS-2?

4 A I have it.

5 Q And if you would find that same USOC code of TM-5?

6 A I have it. I'm there.

7 Q And if you look at the column referenced recurring
8 costs?

9 A Yes.

10 Q Are they the same?

11 A They are not. This is an example of where we -- this
12 is a business line, PBX service combination, message rate
13 trunk. And for this one we used the statewide average UNE-P.
14 However, because it is a message rate trunk, we used the
15 loop/port elements in both cases. The first case is the
16 loop/port of the proposed -- BellSouth proposed UNEs rates in
17 the Docket 990649. In the version, more current version we
18 used the loop/port in the statewide ordered statewide average
19 UNE-P. So this would be an example of where the UNE-P rate
20 changed. We didn't use TSLRIC.

21 Q Okay. It has been identified, and I guess if you
22 want this would be subject to check, staff has identified this
23 and 30 other individual items with different values. Would the
24 explanation you just offered apply to the other 30 items, as
25 well?

1 A There are several elements on here that are business
2 line related. I don't know the exact quantity, but there are
3 several. Back up line, you have several PBX lines, business
4 measured rate, TTTs. I don't know the exact number, but there
5 are a significant number. You could easily determine by seeing
6 if the one in the current version either has the rate of 16.39
7 or 18.11, which would tell you it is a statewide UNE-P rate as
8 opposed to a TSLRIC. That would be sort of the way to
9 ascertain that.

10 MS. BANKS: Give me one moment, Mr. Shell.

11 CHAIRMAN JABER: Ms. White, is there something we
12 need to do?

13 MS. WHITE: Well, my own witness, I think, just may
14 have released two proprietary numbers. You didn't?

15 THE WITNESS: No, the TELRIC numbers are not
16 proprietary.

17 MS. WHITE: Okay. Thank you very much.

18 CHAIRMAN JABER: Thank you, Mr. Shell.

19 BY MS. BANKS:

20 Q Mr. Shell, I think I have just one last question.
21 With the reference we made to the exhibits with one being filed
22 in March and one being filed in October, is there one that we
23 should rely on as being more up-to-date?

24 A Yes. The one I filed with my testimony is more
25 up-to-date. Again, the results are still produced the same

1 showing that it is above the cost, but the one that we filed
2 with my testimony does have the most current tariffed rates,
3 the most current surrogate 1-FB business plan, which is the
4 statewide average UNE-P based on the most recent Commission
5 order. And it has made some other corrections in there, as
6 well, but it is the most current. And, again, the results are
7 the same, it is just that we felt like if we are going to file,
8 especially with the Commission, we wanted to make sure it is
9 current and as accurate as possible.

10 MS. BANKS: Thank you, Mr. Shell.

11 CHAIRMAN JABER: Commissioners. Okay. Redirect.

12 MS. WHITE: No, ma'am, no redirect. And I would move
13 Exhibits 24 and 25.

14 CHAIRMAN JABER: Without objection, Exhibits 24 and
15 25 are admitted into the record.

16 (Exhibit 24 and 25 admitted into the record.)

17 CHAIRMAN JABER: Parties, make sure you collect the
18 red folders before you leave tonight, please. And, Ms. White,
19 if we could -- thank you, Mr. Shell, you are excused -- if we
20 could address the stipulated testimony of Mr. Bigelow.

21 MS. WHITE: Yes, ma'am. BellSouth would ask that the
22 direct testimony of Mr. Steven Bigelow consisting of 7 pages be
23 entered into the record as if read.

24 CHAIRMAN JABER: The prefiled direct testimony of E.
25 Steven Bigelow shall be inserted into the record as though

1 read.

2 MS. WHITE: And Mr. Bigelow had no exhibits to his
3 testimony. And then we would also move into evidence the
4 rebuttal testimony of Mr. Samuel Massey, which consists of 13
5 pages, ask that it be moved into the record as though read from
6 the stand.

7 CHAIRMAN JABER: The prefiled rebuttal testimony of
8 Samuel G. Massey shall be inserted into the record as though
9 read.

10 MS. WHITE: And then Mr. Massey had one rebuttal
11 exhibit labeled SGM-1, and I would ask that that be identified
12 for the record, and actually moved to the record, as well. I'm
13 sorry, he had two exhibits, SGM-1 and 2, and I would ask that
14 those be identified and moved into the record.

15 CHAIRMAN JABER: SGM-1 and SGM-2 are identified as
16 Composite Exhibit 26, and without objection will be admitted
17 into the record.

18 (Composite Exhibit 26 marked for identification and
19 admitted into the record.)

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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.

3

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

5

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

8

9 **Issue 2(iv) Is the BellSouth Key Customer tariff filing (Tariff Number T-**
10 **020035¹) 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-020595²**
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)?**

17

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

22

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

25 ² 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.

22

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 BELL SOUTH CHOSE TO USE THE JUNE**
12 **2001 STUDY TO SUPPORT THE JANUARY KEY CUSTOMER FILING?**

13

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.

10

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?**

14

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.

21

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.

3

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

5

6 A. Yes.

7

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1 BELLSOUTH 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 BELLSOUTH
8 TELECOMMUNICATIONS, INC. ("BELLSOUTH") 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?

3

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.

6

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

1 CHAIRMAN JABER: Is that it?

2 MS. WHITE: That's it.

3 CHAIRMAN JABER: Now, let me confirm my list of
4 witnesses with the parties. I've got next William E. Taylor,
5 and Doctor -- Professor Pitofsky. After that I have those two
6 witnesses left.

7 MS. WHITE: Yes, ma'am.

8 CHAIRMAN JABER: Commissioners, I am inclined to give
9 us all a break and stop right here and take these two witnesses
10 first thing tomorrow morning.

11 Commissioners, can we start at 9:00 tomorrow morning?
12 Parties?

13 MS. WHITE: That would be great.

14 CHAIRMAN JABER: Let me stop and thank you all for
15 how careful you have been with the confidential exhibits, and
16 how you all have brought copies with you, and the
17 professionalism in which you conducted today's cross
18 examination. I appreciate it and we will look forward to
19 tomorrow. Thanks a lot.

20 MS. WHITE: Thank you.

21 (The hearing adjourned at 4:30 p.m.)

22 (Transcript continues in sequence with Volume 5.)

23

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STATE OF FLORIDA)

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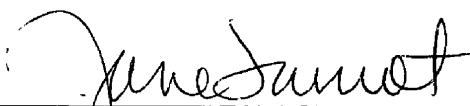
COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 27th day of February, 2003.



JANE FAUROT, RPR
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