SUPPLEMENTAL TESTIMONY OF MR. JAMES W. STEGEMAN
ON BEHALF OF BELLSOUTH TELECOMMUNICATIONS, INC.
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NUMBER 030851-TP
FEBRUARY 23, 2004

Q. PLEASE STATE YOUR NAME AND BUSINESS AFFILIATION.

A. My name is James W. Stegeman. I am the President of CostQuest Associates, Inc. I am testifying on behalf of BellSouth Telecommunications ("BellSouth", "BST" or the "Company").

Q. ARE YOU THE SAME JAMES W. STEGEMAN THAT FILED DIRECT AND SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes. In my direct testimony I described the BellSouth Analysis of Competitive Entry ("BACE") model. In my surrebuttal, I addressed arguments concerning BACE raised by Dr. Brain Staihr and Mr. Kent Dickerson (of Sprint), Mr. Don Wood and Mr. Webber (of AT&T), and Dr. Mark Bryant (of MCI).

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. I respond to the supplemental testimony of Sprint witnesses Kent W. Dickerson and Christy Londerholm of Sprint (hereinafter the "Sprint witnesses"), the confidential version of which I obtained Sunday, February 22, 2004.

Q. THE SPRINT WITNESSES CLAIM THAT THEIR REVIEW OF BACE HAS BEEN HINDERED BY THEIR LACK OF ACCESS TO EDITABLE VERSION OF THE BACE SOURCE CODEINADEQUATE. HOW DO YOU RESPOND?

A. As an initial matter, there is nothing described by the Sprint witnesses that required access to the editable version of the BACE source code (or for that matter, any source code) and which could not have been discovered with the use of the BACE model as originally filed on December 4, 2003. It seems that Sprint's complaints concerning the editable version of BACE were used as a ploy to provide additional arguments that could have been filed in either rebuttal or surrebuttal testitmony.

Q. DO YOU HAVE ADDITIONAL COMMENTS CONCERNING SPRINT'S ARGUMENTS ABOUT THE EDITABLE VERSION OF THE BACE MODEL?

A. Yes. Since the time that Sprint first formally requested the editable version of the source code – which I understand was not requested until January 16, 2004 – Sprint has framed their source code arguments as one of vital importance. Having now filed supplemental testimony, it is obvious that the efforts BellSouth has made to ensure Sprint's access to the editable source code were for naught. It bears repeating that through exhibits, discovery, and informal communications that Sprint has had access to:

(1) the pdf version of the BACE source code;

(2) 45 of 48 input Access Tables in BACE;

(3) pdf versions of two of the three remaining Access tables;

(4) computer access to the final Access table;

(5) ability to control the three protected tables via the remaining 45 tables.

(6) And, a demonstration scenario that opens up all input, processing and output tables within BACE so that any reviewer can walk through and verify the workings of BAC E.

Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING SPRINT'S CONTINUED ARGUMENTS REGARDING THE ADEQUACY OF ITS ABILITY TO REVIEW BACE?

A. I do. To ensure a complete record, I need to outline the timeline leading to Sprint's supplemental testimony filing.

In late December 2003, I put the pdf version of the BACE source code onto the CostQuest website. I provided the proprietary password to access that website to BellSouth. My understanding was that both AT&T and Sprint had informally requested the BACE source code and that website access would be provided so that the parties could review the source code.

During late December and continuing into January, I personally participated in three conference calls with Sprint personnel. At no time during these conversations did any of the Sprint participants raise any issue or concern with

their access to the pdf source code. Sprint never requested a printable version of the pdf source code before we posted an updated, printable version; had it done so a printable version would have been provided earlier.

In mid January 2004, I received data requests from Sprint. These data requests included a request for the editable version of the BACE source code. Thereafter, on January 30, 2004, I understand that BellSouth offered to make an editable version of the BACE model available at a BellSouth location. I have learned that this offer was emphatically rejected by Sprint witness Dickerson during a conference call between BellSouth, the Commission staff, and Sprint. While I did not personally participate in the conference call, I was on standby in case my participation in the call was needed.

BellSouth reiterated its offer to make the editable version of the BACE source code available in early February 2004. I personally arranged for a computer to be sent to BellSouth's Tallahassee office, which computer was delivered to Tallahassee and available to Sprint on February 13, 2004.

I have since learned that the Commission staff accessed the computer on February 14, 2004. However, Sprint did not review the computer until the afternoon of February 17, 2004.

Thus, when Sprint argues that access to the editable source code was not available to them until after a ruling on its Motion to Compel, this disregards completely

prior efforts to resolve this matter by providing access to a computer, which computer was available prior to any ruling made by this Commission.

Q. THE SPRINT WITNESSES CLAIM (P. 7, LINE 22) THAT SPRINT WAS NOT AWARE THAT A PRINTABLE VERSION OF THE PDF SOURCE CODE WAS AVAILABLE UNTIL JANUARY 23, 2004. PLEASE COMMENT.

A. I find this argument without merit. Sprint was provided access to the pdf version of the source code on December 23, 2003. As I noted in my answer to the previous question, to the best of my knowledge, Sprint did not request a printable version (although one was available on the BellSouth website).

Q. THE SPRINT WITNESSES ALSO CONTEND THAT CERTAIN PORTIONS OF THE EDITABLE SOURCE CODE REMAINED UNAVAILABLE TO THEM AND THEREFORE THEY COULD NOT WALK THROUGH ANY OF THE CODE. DO YOU HAVE ANY COMMENT?

A. Yes. Their contention that they could not walk through the code is without merit. First, there are differences between the calculation code -- which was available in an editable form beginning February 13, 2004 -- and the two other executable files referred to in the Sprint witnesses' supplemental testimony. My specific concern here is how Sprint artfully turns the question from one of Calculation Code (page 3) to the concept of "Open Access" which never is defined.

Let me explain. The BACE model is comprised of three executable programs. Each program performs a very specific function. BACE.exe provides the user interface. In other words, it allows a user to open a scenario, see a menu tree of available tables, click a button, save a report and many other non-calculation tasks. These are tasks not relevant to calculations within BACE. BACEu.exe provides database utility functions, such as linking a table or compressing a database. BACEu.exe relies heavily on Microsoft's DAO technologies. Again, BACEu.exe has nothing to do with calculations within BACE. The only executable file that is relevant to calculations is the BACE engine or BACEe.exe. Requesting an unlocked version of BACE.exe or BACEu.exe is a bit like asking for an editable version of Microsoft's Excel program because one is examining the data within a cell in an Excel spreadsheet; it should be essentially irrelevant.

I do not associate BACEu.exe and BACE.exe files with the calculation source code, and as a result the files were not "unlocked" initially, simply due to my understanding of what the parties were interested in. I later learned that parties desired access to these files. I immediately worked with BellSouth personnel in the Tallahassee office to provide access to these additional components of BACE. These files were provided on Friday, February 20, 2004.

Q. WITHOUT THESE FILES WOULD IT HAVE BEEN POSSIBLE FOR SPRINT TO REVIEW BACE CALCULATIONS?

A. Yes. The calculation code is a stand-alone set of code that handles the calculations within BACE. Let me provide a very specific example. BACEe.exe, the calculation engine, is called from the User Interface (BACE.exe) when a user clicks the Process button. This button click starts BACEe.exe. This can be seen with the BACEe window popping up on the user's computer as the P,Q,R and ON processes run. A person with the ability to modify the BACEe.exe calculation engine can use these skills to analyze calculations by calling their modified BACEe.exe from the command line. In other words, after Sprint completes their modifications to BACEe.exe, they can build their executable, move it into the BACE program directory and call the BACEe.exe by going to a DOS window and typing ***BACEe.exe BACE*** to start the calculation engine. This eliminates any need to interact with the code for the interface BACE.exe or table utilities.

Q. HOW DOES THIS PROVE THAT THERE ARE NO CALCULATION DEPENDENCIES FROM BACE?

A. Because the BACE calculation engine (BACEe.exe) can be modified and then called from the Command Prompt, a user can demonstrate that their BACEe.exe has no affect (if un-modified) or some effect (if modified) when the appropriate BACEe.exe is placed in a fully installed BACE directory.

Q. IN THE SUPPLMENTAL TESTIMONY, THE SPRINT WITNESSES PROVIDE AN ANALYSIS OF SWITCHING INVESTMENT. (P. 8-9, EXHIBIT KWD-13). WAS IT NECESSARY TO HAVE ACCESS TO THE

EDITABLE VERSION OF THE BACE SOURCE CODE TO PREPARE THIS ANALYSIS?

A. Absolutely not. Indeed, the notes regarding the source of the BACE values (KWD-13, page 1 of 3, lines 29-35) indicate that the Sprint witnesses used the standard reporting features in BACE. Thus, this analysis did not require any source code and could have been prepared using the BACE model filed December 4, 2003, since no switching investments changed with the later filings of BACE

Sprint could have performed this analysis with the original version of BACE and include any arguments concerning the switching investment in its rebuttal testimony filed on January 7, 2004. It seems that Sprint has relied upon its disagreement concerning the editable version of the BACE source code as a ploy to file additional testimony four days prior to the hearing.

Q. DO YOU HAVE ANY OTHER COMMENTS CONCERNING THE SPRINT SWITCH INVESTMENT ANALYSIS?

A. Yes, the analysis provided by the Sprint witnesses is invalid. The presentation of values by lines per switch is highly misleading. By year 10, in the BellSouth Florida BACE run, the modeled CLEC has placed 13 switches. From KWD-13 (line 6), the CLEC is serving 836,320 lines or over 64,000 lines per switch. In contrast, Sprint only serves ***_____*** lines per switch (KWD-13 C11/***___***, the ***___*** was obtained from Telcordia's LERG). And as I am sure the witnesses from Sprint are aware, the greater the number of lines per

switch will have a significant impact on the investment per line. Thus, contrary to Sprint's assertions, because the modeled CLEC can aggregate traffic and gain economies of scale in switching, one should expect that the CLEC would have much lower investment or costs per line than Sprint has currently in its ILEC operations.

Consider an alternate calculation. The BACE aggregate switch investment by year 10 is over $5.25 million per switch. In contrast, Sprint's switch investment is only ***_____*** million per switch (KWD-13, C11/***____*** switches. By Sprint's convoluted logic, BACE has overstated investment per switch upwards of ***____***% as compared to Sprint.

Q. THE SPRINT WITNESSES CLAIM THAT THE HYPOTHETICAL CLEC WOULD NOT HAVE THE PURCHASING POWER OF BELLSOUTH. WHAT IS YOUR REACTION?

A. I find it rather odd coming from a company that has over ***____*** total switches located in Florida. It would seem that a firm with nearly the equivalent count of switches should have a nearly equivalent purchasing power. Sprint may well have more switches on a national basis than BellSouth.

Q. THE SPRINT WITNESSES PROVIDE AN ANALYSIS OF DLC INVESTMENT (P. 9-10, EXHIBIT KWD-13). WAS AN EDITABLE VERSION OF BACE SOURCE CODE NECESSARY TO PREPARE THIS ANALYSIS?

A. No. Similar to the Sprint's switching arguments, the notes regarding the source of the BACE values (KWD-13, page 1 of 3, lines 29-35) indicate that the Sprint witnesses used the standard reporting features in BACE. Thus, this analysis did not require source code and could have been prepared using the BACE model filed December 4 2003, since no DLC investments changed with the later filing of BACE.

Q. DO YOU HAVE ANY COMMENTS CONCERNING THE DLC INVESTMENT ANALYSIS?

A. Yes. First, the Sprint witnesses claim that BACE in Florida has approximately ***_____*** DLCs in Florida. This is incorrect. While in the BACE BellSouth Florida run there are ***____*** wire centers served (or DLC locations), there are a larger number of DLC systems (multiple systems per location).

The BACE DLC inputs are based upon the BellSouth DLC investments as reflected in recent BellSouth TELRIC calculations. Certainly, the Sprint DLC investments could be higher than the modeled CLEC for a number of reasons. Sprint is likely to have some portion of UDLC, which is more expensive (including significant investments for central office terminal equipment); the BACE modeled CLEC has only the more efficient IDLC (since the CLEC has no obligation to provide unbundled network elements). In addition, Sprint has a much larger number of DLC locations, not only switch locations, but a much larger number of remote terminals. (Indeed, the HCPM indicates that Sprint-

Florida (the ILEC) has an average of 23 main clusters per wire center). Such remote location service is not required by the modeled CLEC, and it is unlikely that the Sprint CLEC company incurs such costs. By definition, some of these areas are likely to be remote locations (requiring DLC equipment since they are too remote to be served via copper). These areas will likely often represent a small number of lines per DLC location and therefore Sprint can't achieve the economies of scale and utilization factors that a CLEC serving only ***____*** locations can achieve.

Q. THE SPRINT WITNESSES ALSO DISCUSS OSS COSTS. (P. 10-12). WAS ACCESS TO THE EDITABLE VERSION OF THE BACE SOURCE CODE NECESSARY TO PREPARE THIS ANALYSIS?

A. Absolutely not. This analysis requires no source code and could have been prepared using the BACE model filed December 4, 2003, since OSS costs did not change with the later filing of BACE.

Q. THE SPRINT WITNESSES DISCUSS COSTS RELATEDTO NETWORK AND GENERAL SUPPORT ASSETS. (P. 12-13). WAS ACCESS TO THE EDITABLE VERSION OF THE BACE SOURCE CODE NEEDED TO PREPARE THIS ANALYSIS?

A. No. Again, this analysis requires no source code and could have been prepared using the BACE model filed December 4, 2003. Costs related to network and general support were not changed with the later filing of BACE.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes it does.