

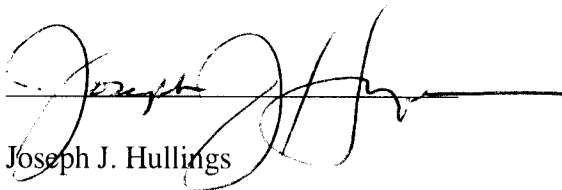
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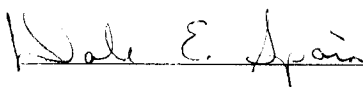
COUNTY OF FULTON

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Joseph J. Hullings, who, being by me first duly sworn deposed and said that:

He is appearing as a witness before the Kentucky Public Service Commission in Case No. 2002-00456, Inquiry into the Use of Contract Service Arrangements by Telecommunications Carriers in Kentucky, on behalf of BellSouth Telecommunications, Inc., and if present before the Commission and duly sworn, his testimony would be set forth in the annexed testimony consisting of 10 pages and 0 exhibits.


Joseph J. Hullings

SWORN TO AND SUBSCRIBED BEFORE ME
THIS 28 DAY OF APRIL, 2003

 _____ Notary Public

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BELLSOUTH TELECOMMUNICATIONS, INC.
DIRECT TESTIMONY OF JOSEPH J. HULLINGS
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION
CASE NO. 2002-00456
APRIL 30, 2003

Q. PLEASE STATE YOUR NAME, YOUR POSITION AND YOUR BUSINESS ADDRESS.

A. My name is Joseph J. Hullings. I am the Director - Custom Development and Tactical Pricing with BellSouth Business. My business address is 2180 Lake Boulevard, Suite 7C718, Atlanta, Georgia 30319.

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

A. I graduated from the Georgia Institute of Technology with a Bachelor of Science degree in Industrial Management in 1975. I received my Masters in Business Administration from Georgia State University in 1980. I am a member of the Senior Faculty at the Keller Graduate School of Management of DeVry University where I teach telecommunications principles and applied management to students in the Telecommunications Management curriculum. I have 27 years of diversified experience in the telecommunications field, with emphasis in sales and sales operations, marketing, network planning and engineering. I have managed the growth of multiple new business ventures

1 and the implementation of a variety of technologies. I am currently Director –
2 Custom Development and Tactical Pricing - responsible for sales support and
3 pricing of solutions for BellSouth’s business clients. In my current position I
4 am responsible for insuring that sales opportunities are thoroughly analyzed in
5 terms of competitive vulnerability, reasonableness, ability to execute
6 successfully, and are within acceptable margins. I am also responsible for
7 analyzing and establishing the price for individual Contract Service
8 Arrangements (“CSAs”).

9

10 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

11

12 A. The purpose of my testimony is to provide clarification for the Commission
13 regarding BellSouth’s use of CSAs in Kentucky. I will address why and how
14 BellSouth offers CSAs in Kentucky and why the offering of CSAs fosters
15 competition in Kentucky.

16

17 Q. WHAT IS A CONTRACT SERVICE ARRANGEMENT OR CSA?

18

19 A. A CSA is a regulated contract between a business customer and BellSouth.
20 The CSA provides an approved tariff service or group of services at terms,
21 conditions and/or rates that are different from what is published in the
22 BellSouth General Tariff.

23

24 Q. PLEASE DESCRIBE THE IMPACT OF CSAs ON COMPETITION IN THE
25 TELECOMMUNICATIONS MARKET?

1 A. CSAs facilitate competition by allowing BellSouth to offer competitive rates
2 and/or terms and conditions to customers that our competitors have chosen to
3 offer service to. When BellSouth can more closely match a competitor's offer,
4 the customer benefits.

5
6 From an historical perspective, BellSouth recognized that without the ability to
7 offer CSAs, BellSouth could not respond to requests from those business
8 customers that had competitive options for more favorable terms, conditions
9 and/or rates. Without CSA flexibility, competitors simply had to present the
10 capabilities of their product and insure that their rates were lower than the rates
11 published in BellSouth's tariffs in order to capture the business. BellSouth
12 could not compete for this business because it could not as a practical matter
13 lower its tariff rates for all customers in order to offer a lower price to the
14 customers that our competitors had chosen to approach. Although business
15 customers benefited from the CLECs' offers, the fact that BellSouth could not
16 also compete for the business in a meaningful way meant that competition was
17 not as robust as it could have been.

18
19 Through its approval of CSAs, the Commission acknowledged the need to
20 foster more robust competition. As a result, Kentucky business customers now
21 benefit from BellSouth's competitive offers in addition to other competitive
22 alternatives.

23

24 Q. ARE THERE DIFFERENT TYPES OF CONTRACT SERVICE
25 ARRANGEMENTS?

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2 A. Yes, BellSouth offers two types of CSAs. Service-specific CSAs provide a
3 contract that offers a specific product or products with special pricing or
4 reduced rates from BellSouth's general tariff. Volume and Term (V&T) CSAs
5 provide rewards to the customer in exchange for maintaining a mutually agreed
6 upon level of billing with BellSouth for a negotiated term. Both types of CSAs
7 may be negotiated with a customer for a single state, or for a multi-state area.

8

9 Q. HOW DOES BELLSOUTH DETERMINE WHICH CUSTOMERS ARE
10 CANDIDATES FOR CONTRACT SERVICE ARRANGEMENTS?

11

12 A. CSA candidates are the same customers targeted by competitive
13 telecommunications service providers. BellSouth identifies the business
14 customers to whom it currently markets its products and services and who have
15 diverse and growing telecommunications needs. BellSouth stratifies its
16 business market based on billed revenue and assigns account teams to the
17 accounts accordingly. These account teams are charged with establishing and
18 maintaining a positive business relationship with these customers. This
19 relationship is intended to retain existing revenues for BellSouth and to
20 identify new products and services for the customer that would result in
21 incremental revenue for BellSouth. The account team may offer a CSA to
22 these customers under this relationship where competitors are actively trying to
23 take the customer's business or to re-establish a relationship with customers
24 who have moved away from BellSouth. CSAs are offered to both existing and
25 new BellSouth customers that have competitive alternatives.

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Customers may request competitive bids from a number of telecommunications service providers, and BellSouth may respond to these requests with a CSA. In addition, customers may indicate to their BellSouth account team that they have received a competitive offer from another telecommunications service provider at a lower price, or with more favorable contract terms than are available from BellSouth's tariffs. BellSouth's response to such a competitive proposal may be to offer that customer a CSA.

A customer must meet these three basic criteria in order to be offered a CSA:

1. BellSouth has reason to believe that the price of service under its existing tariff offering is not competitive for that particular customer;
2. The customer has a competitive alternative available; and
3. The customer is willing to sign a CSA with BellSouth and commit to the terms and conditions contained in the CSA.

Q. HOW DOES BELLSOUTH DETERMINE WHETHER OR NOT TO OFFER A CONTRACT SERVICE ARRANGEMENT TO A PARTICULAR CUSTOMER?

A. First, a customer must meet the three criteria previously described. Whether a particular customer is actually offered a CSA depends on a number of factors. Generally, BellSouth considers revenue and the economic impact on BellSouth of not winning that customer's business. BellSouth reviews each competitive situation on its own merit.

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Q. PLEASE DESCRIBE THE STEPS INVOLVED IN THE PROCESS OF ENTERING INTO A CONTRACT SERVICE ARRANGEMENT WITH A CUSTOMER.

A. The process of identifying a potential customer and the criteria that the customer must meet, have already been described. The account team submits a request for a CSA to the appropriate management personnel for approval. Upon approval, the customer may be asked to sign an Information Exchange Agreement and CPNI release in order to protect the confidentiality of BellSouth's proposal and to ensure that BellSouth's proposal is complete and accurate.

A contract manager assists the account team in developing the parameters of the proposed CSA and preparing the terms and conditions of the contract. The BellSouth Finance Department – Cost Matters Group manages and develops the cost support. BellSouth reviews every situation based on its own merits and sets the price based on the specific customer situation. Factors considered in price development include the competitive offer, the volume of service requested, the current volume of business provided by the customer, potential for integrated packages and bundles, contribution to be earned on the offer, and the target price identified by the account team as the customer's willingness to pay. As a general rule, BellSouth attempts to quote CSA rates that will be attractive to the customer, given what we know about the competitor's offer. If the sales force cannot demonstrate that the competitive situation warrants a

1 lower rate or special contract terms and conditions, then the CSA is not
2 approved. After the appropriate internal reviews and approvals are completed,
3 the CSA is presented to the customer. The customer reviews the proposed
4 CSA and the rates, terms and conditions therein are negotiated. If the
5 negotiations are successful, the customer signs the CSA contract. The Finance
6 Department – Cost Matters Group then prepares a filing package based upon a
7 state’s specific filing requirements, if any. In Kentucky, this means filing a
8 monthly summary of executed contracts as described in the Commission’s
9 September 28, 2001 Order in Kentucky PSC Case No. 2001-00077.

10

11 If negotiations with the customer are unsuccessful and the customer does not
12 sign the CSA, which happens with 75% of the requests, the account team
13 cancels the CSA request or it automatically expires within 90 days.

14

15 Q. HOW CAN BELLSOUTH DETERMINE IF THE PRICE OF SERVICE
16 UNDER A TARIFF IS NOT COMPETITIVE FOR A PARTICULAR
17 CUSTOMER?

18

19 A. BellSouth determines that the tariff rate is not competitive for a particular
20 customer when that customer or available market intelligence informs
21 BellSouth that a competitor has proposed to serve the customer at a lower rate
22 or when BellSouth has reason to believe that the customer has competitive
23 alternatives that threaten BellSouth’s ability to retain or win the customer’s
24 business.

25

1 Q. ARE BELLSOUTH'S CONTRACT SERVICE ARRANGEMENTS
2 AVAILABLE TO "SIMILARLY SITUATED" CUSTOMERS AND, IF SO,
3 WHAT CRITERIA DOES BELLSOUTH USE TO IDENTIFY A
4 SIMILARLY SITUATED CUSTOMER?

5

6 A. Yes, BellSouth's CSAs are available to similarly situated customers.
7 Customers are similarly situated when their mix of services, location(s),
8 serving arrangements, application of contract terms and conditions, overall
9 revenues involved and incremental business opportunities are similar. In
10 addition, a customer is only offered a CSA if the customer meets the three
11 basic criteria identified on page five of my testimony.

12

13 Q. WHAT TRENDS HAVE YOU OBSERVED RELATED TO THE NUMBER
14 OF CSAs OFFERED BY BELLSOUTH?

15

16 A. The most obvious trend is that the number of CSAs executed by BellSouth is
17 increasing. This increase appears to be directly related to the increased
18 competition in Kentucky. BellSouth account teams are therefore requesting
19 more CSAs as a competitive response. Kentucky business customers are also
20 using their competitive alternatives to secure more favorable rates, terms and
21 conditions.

22

23 Q. WHY DOESN'T BELLSOUTH SIMPLY UPDATE ITS GENERAL
24 TARIFFS WITH THE LOWEST CSA RATE OFFERED BY SERVICE
25 TYPE?

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2 A. BellSouth would find it uneconomic to lower its General Tariff rates to the
3 levels that are contained in its lowest CSAs. If we can provide service to a
4 customer that we would otherwise lose at a price that covers the relevant costs,
5 BellSouth and all of its other subscribers are better off, because that customer
6 is making a contribution to BellSouth's fixed costs. If we had to decide to
7 lower all customers' rates to that same level, one could assume that it generally
8 wouldn't be economic for BellSouth to do so, and so we wouldn't be able to
9 serve the customer that our competitors had targeted. In that situation,
10 everybody, BellSouth, its remaining customers, and the lost customer are
11 worse off. BellSouth also notes that its rivals are not required to make their
12 least expensive rates available to all customers throughout BellSouth's service
13 territory. Rather, competitors choose to serve only those customers that they
14 wish to serve, typically focusing on those customers where the competitors
15 believe BellSouth may be most vulnerable or where the competitors have
16 lower costs or anticipate higher margins.

17

18 Q. WHAT WOULD THE EFFECT ON COMPETITION BE IF BELLSOUTH
19 COULD NOT OFFER CSAs?

20

21 A. If BellSouth did not have the flexibility to offer CSAs, BellSouth would not be
22 able to compete effectively for most customers that had competitive options.
23 Competitors would know this, and would be less inclined to offer prices to
24 customers significantly below those published in BellSouth's general tariffs
25 because competitors would be shielded from any meaningful competition from

1 BellSouth. Consumers in Kentucky would be deprived of the robust
2 competition (leading to lower prices and enhanced service) that would
3 otherwise be available to them.

4

5 Q. ARE CSAs AVAILABLE FOR RESALE BY CLECs?

6

7 A. Yes. CSA contracts are available to CLECs through resale provisions. CSAs
8 are contracts executed between BellSouth and business customers who, with
9 few exceptions, are aware of the competitive alternatives, have the opportunity
10 to avail themselves of those alternatives and select from those available
11 competitive alternatives. In the course of its sales efforts, if a CLEC contacts a
12 customer currently under a BellSouth CSA, in addition to their own product
13 options, the CLEC also has the option to resell the CSA.

14

15 Q. PLEASE SUMMARIZE YOUR TESTIMONY?

16

17 A. The Commission should affirm the manner in which BellSouth offers CSAs in
18 Kentucky and find that CSAs help insure that Kentucky retains the benefits of
19 robust competition in its telecommunications' marketplace.

20

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22

23 A. Yes.

24

25 Docs 489424