

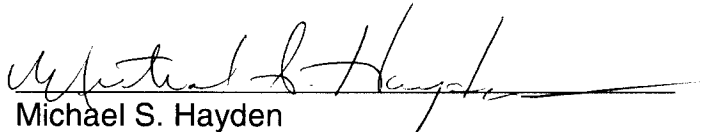
AFFIDAVIT

COMMONWEALTH OF KENTUCKY


COUNTY OF JEFFERSON

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Michael S. Hayden, BellSouth Telecommunications, Inc., 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 as set forth in the annexed testimony consisting of 8 pages and 1 exhibit(s).

  
Michael S. Hayden

SWORN TO AND SUBSCRIBED BEFORE ME THIS THE 25<sup>th</sup> DAY OF  
April, 2003.

  
NOTARY PUBLIC

My Commission Expires:

7-25-2004

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BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY OF MICHAEL S. HAYDEN  
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION  
CASE NO. 2002-00456  
APRIL 30, 2003

Q. PLEASE STATE YOUR NAME, YOUR POSITION WITH BELLSOUTH TELECOMMUNICATIONS, INC. (“BELLSOUTH”) AND YOUR BUSINESS ADDRESS.

A. My name is Michael S. Hayden. I am employed by BellSouth Business Systems as a Sales Manager. On May 1, 2003 I will assume a position with BST as a Kentucky Regulatory Manager. My business address on May 1<sup>st</sup> will be 601 West Chestnut Street, Louisville, Kentucky, 40203.

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

A. I am currently enrolled in the University of Phoenix pursuing a Bachelor of Information Technology Degree. I have been in the telecommunications industry for nearly thirty years and employed by BellSouth or its predecessor for most of this time. I began my career with AT&T in 1973 in the Operator Services organization. Between 1973 and 1979 I held various positions within the Network organization ranging from installer-repairman, special services

1 technician, and cable repairman. In 1979, I was promoted to a management  
2 position and held various supervisory positions within the Network  
3 organization. In 1986 I assumed a role in South Central Bell's marketing  
4 organization and held various positions including technical support specialist  
5 and product manager for private line data services. In 1990, I assumed a  
6 position in South Central Bell's marketing strategic planning organization. In  
7 1991, I became a Systems Designer for BellSouth Business Systems  
8 developing voice, data and Internet solutions for customers. In 1992, I became  
9 a Sales Manager for BellSouth Business Systems managing sales and account  
10 management for government and education customers in Kentucky. In 1994, I  
11 was appointed the Director of the Kentucky Information Highway project. In  
12 1999, I left BellSouth to assume a position with Darwin Networks as their Vice  
13 President of Operations. In 2001, I returned to BellSouth Business Systems as  
14 a Sales Manager managing sales and account management for government and  
15 education customers.

16

17 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

18

19 A. The purpose of my testimony is to describe why the use of Contract Service  
20 Arrangements ("CSAs") is an integral part of BellSouth's ability to meet  
21 customer demands for competitive business solutions and is important to  
22 customers. I will also describe the various business markets in Kentucky.

23

24

25

1 Q. DESCRIBE THE SERVICES BELLSOUTH PROVIDES TO BUSINESS  
2 CUSTOMERS.

3

4 A. BellSouth provides a wide array of services to meet the needs of Kentucky  
5 business customers. This can range from simple plain old telephone services  
6 (“POTS”) to complex, e-business solutions. BellSouth provides voice and data  
7 services that serve both the local and long distance markets. BellSouth also  
8 provides a diverse line of customer provided equipment (“CPE”) from various  
9 equipment manufacturers such as data switches and routers from Cisco  
10 Systems, key systems and private branch exchanges (“PBX”) from Nortel  
11 Networks, and call center platforms from Genesis and Interactive Intelligence  
12 Incorporated. Our network data services include digital subscriber lines  
13 (“DSL”), private line services with speeds from 2.8 Kbps to 155 Mbps, frame  
14 relay services, asynchronous transfer mode (“ATM”) services, and high speed  
15 transport services (“HSTS”) with speeds up to 1Gigabit per second.  
16 Additionally, BellSouth provides a full complement of professional services to  
17 design and manage a customer’s telecommunications enterprise. I don’t intend  
18 for this necessarily to be a complete list, but it is clear that we provide a wide  
19 and diverse range of services to our business customers.

20

21 Q. DESCRIBE THE BUSINESS CUSTOMERS BELLSOUTH SERVES AND  
22 THE BUSINESS MARKET IN KENTUCKY.

23

24 A. BellSouth provides services to all types of business customers in BellSouth’s  
25 Kentucky serving area. The BellSouth marketing groups segment the customer

1 markets and assign various resources depending on the size and complexity of  
2 the customer. Sales associates that manage customer transactions by telephone  
3 typically serve very small businesses. Small business customers generally do  
4 not require a high level of sophistication or complex telecommunication  
5 services to meet their needs. Consequently, we see many competitors in this  
6 market who compete with aggressively priced products and services.  
7 Dedicated resource teams serve large enterprise customers. As a result of their  
8 size and buying power, these large enterprise customers demand sophisticated  
9 custom solutions and competitive prices. For example, the sales team I led  
10 serves the government and education markets of Kentucky. This includes the  
11 Commonwealth of Kentucky, all colleges and universities, all public K-12  
12 school districts, and the Kentucky Lottery Corporation. This base of customers  
13 ranges from small municipalities such as the City of Cadiz or the City of Inez,  
14 to very large, complex customers such as the Commonwealth of Kentucky or  
15 the Kentucky Lottery Corporation. Due to state or federal statutes and reduced  
16 budgets, nearly all of the customers my team serves use competitive bids to  
17 acquire telecommunications services.

18

19 Q. IS THE KENTUCKY TELECOMMUNICATIONS BUSINESS MARKET  
20 OPEN TO COMPETITION?

21

22 A. Yes it is. The number of competitors in the Kentucky telecommunications  
23 business market has grown exponentially. There are approximately 90 active  
24 Competitive Local Exchange Carriers (“CLECs”) serving the  
25 telecommunications needs of Kentucky businesses and residences. As a result

1 of this competition, and as Mr. Ruscilli has stated in his testimony, BellSouth  
2 has lost over 175, 000 access lines to CLECs, approximately 85,000 of which  
3 are business lines. In fact, customers served by my team disconnected three  
4 times as many BellSouth lines in 2002 as they disconnected in 2001. These  
5 lines were disconnected from BellSouth and moved to a competitive service  
6 provider.

7

8 Q. IS COMPETITION ONLY IN BELLSOUTH'S LARGE METROPOLITAN  
9 AREAS?

10

11 A. No. BellSouth has experienced business line losses in nearly all of Kentucky's  
12 towns and cities. For instance, in small central office locations like Cadiz,  
13 Marion, and Owenton, where there are less than 400 business lines per office  
14 in the BellSouth Business market segment, BellSouth has lost a significant  
15 percentage of its access lines to competitors. The sales team I headed has  
16 experienced competition in many areas of the Commonwealth and some  
17 examples of competitive losses are listed on Exhibit 1. Additionally, to name  
18 just a few others, BellSouth has lost Requests for Proposals ("RFPs") at certain  
19 county schools and a university which are also listed on Exhibit 1.

20

21 Q. WHAT TYPES OF COMPETITORS ARE IN BELLSOUTH'S KENTUCKY  
22 BUSINESS MARKETS?

23

24 A. There are numerous types of competitors in BellSouth's business markets.  
25 Facility-based and resale CLECs are widespread. Additionally, many

1 municipalities have constructed private fiber arrangements throughout their  
2 communities. My sales team has also seen new types of competitors such as  
3 fixed wireless providers and companies that provide services equivalent to  
4 BellSouth's Centrex services using Voice Over Internet Protocol ("VOIP")  
5 technology.

6

7 Q. WHAT SERVICES ARE SUBJECT TO COMPETITION IN BELLSOUTH'S  
8 BUSINESS MARKETS?

9

10 A. We have found many of our services to be subject to competition. Beyond  
11 POTS type business lines, Primary Rate ISDN ("PRIs") services are some of  
12 the services most aggressively targeted by competitors. A large number of  
13 CSAs for PRI services have been put in place in Kentucky. Of the 780 CSAs  
14 identified in this case, 368 are for PRI services (as shown in response to Item  
15 No. 1 to the PSCs staff's Data Request dated 12/19/02 and 1/28/03). Data  
16 transport services, i.e., T1 and frame relay, are also aggressively pursued by  
17 competitors. As an example, my sales team has been told by several of our  
18 customers that AT&T has proposed a very competitive price for T1 services to  
19 support a statewide, Tele-health initiative.

20

21 Q. HOW DOES BELLSOUTH RESPOND TO COMPETITION?

22

23 A. BellSouth's response to competition depends on the unique circumstances of  
24 each customer. For example, when my team and I have responded to RFPs, we  
25 usually have conducted a considerable amount of research in an attempt to

1 assess the competition. This research typically consisted of discussions with  
2 our peers in other BellSouth states, review of CSAs filed in Kentucky, review  
3 of any previous RFPs, as well as research of other available data. We then  
4 prepare a price schedule based on our tariff terms and conditions to determine  
5 if this will win the business. If we determine a deeper discount is required to  
6 be competitive, one of my Sales Engineers then issues a CSA requesting the  
7 prices and terms.

8

9 Q. ARE CSAs IMPORTANT TO BELLSOUTH'S BUSINESS CUSTOMERS?

10

11 A. Yes. The use of CSAs is important because it provides BellSouth's customers  
12 the ability to obtain quality telecommunications at competitive rates. Absent  
13 the CSA process, BellSouth would respond to customer requests using its  
14 published tariff rates. Other service providers would likely provide the  
15 customers prices only slightly lower than BellSouth's tariffed rates, but higher  
16 than what BellSouth may be able to offer using a CSA. CSAs allow  
17 BellSouth to compete for customers and allow those customers to receive the  
18 maximum benefit of competition.

19

20 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

21

22 A. Kentucky's telecommunications market is open to competition and  
23 competitive line losses are increasing in BellSouth's markets. Customers can  
24 and do benefit from competition among incumbent local exchange companies  
25 and CLECs as well as non-traditional service providers as we have seen in our



1 sales team efforts. CSAs provide a necessary tool for BellSouth to offer  
2 competitive business solutions to our customers. CSA pricing is demanded by  
3 our customers as they continue to learn and demand more innovation, better  
4 pricing, and competitive terms and conditions for the services they need.

5

6 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

7

8 A. Yes.

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14 Docs 489442

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