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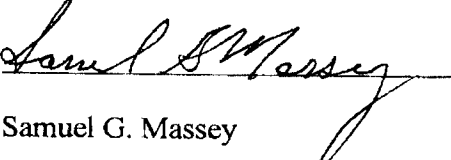
STATE OF GEORGIA

COUNTY OF FULTON

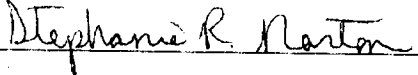
BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared Samuel G. Massey, who, being by me first duly sworn deposed and said that:

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 9 pages and 1 exhibits.

**STEPHANIE R NORTON**  
Notary Public, Clayton County, Georgia  
My Commission Expires December 20, 2006

  
Samuel G. Massey

SWORN TO AND SUBSCRIBED BEFORE ME  
THIS 30 DAY OF APRIL, 2003

  
Notary Public

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BELLSOUTH TELECOMMUNICATIONS, INC.  
DIRECT TESTIMONY SAMUEL G. MASSEY  
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 Sam Massey. I am a Marketing Manager with BellSouth. My address is 1057 Lenox Park Boulevard, Room 3D20, Atlanta, Georgia 30319.

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

A. I graduated from the Georgia Institute of Technology in Atlanta, Georgia in 1987 with a BS degree in Industrial Management. I completed my Masters Degree in Business Administration in 1989 at the State University of West Georgia. Before joining BellSouth, I worked in the investment industry for seven years in various roles, ranging from Institutional Fixed Income Sales to Associate Equity Analyst. I worked in the Finance and Forecasting organizations from May 1998 through February 2002. In February 2002, I joined the BellSouth SBS Strategic Analysis group as Manager of Competitive and Strategic Analysis. I currently am responsible for tracking and analyzing

1 the competitive situation in the small business segment, including the market  
2 share of the various players in the market and the decrease in the number of  
3 lines that BellSouth SBS serves.

4

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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7 A. The purpose of my testimony is to describe the decline in access lines and  
8 market share that BellSouth has experienced in the small business market in  
9 the state of Kentucky and the method used to calculate that decline.

10

11 Q. WHAT IS BELLSOUTH'S ASSESSMENT OF THE OVERALL  
12 COMPETITIVENESS OF THE SMALL BUSINESS MARKET IN  
13 KENTUCKY?

14

15 A. The market is highly competitive. Our competitors operate in a very focused  
16 and targeted manner. They typically concentrate on selected small to mid-  
17 sized businesses. In the markets in which they choose to compete, our  
18 competitors are gaining significant numbers of small business access lines.

19

20 Q. WHAT IS THE BASIS FOR THAT STATEMENT?

21

22 A. Each month BellSouth uses retail information to develop the percentage of  
23 small business access lines in its operating territory in Kentucky that BellSouth  
24 actually serves. The chart below shows this percentage for the months of  
25 January 2000 through February 2003. As evidenced by the chart, the

1 percentage of these small business access lines that are served by BellSouth  
2 has fallen from an overstated estimate of 92.3% share at the end of 1999 to  
3 81.4% in February 2003, a decline of 10.9%. BellSouth SBS is currently  
4 losing between 0.1% and 0.3% additional market share points every month.  
5 Clearly customers have many competitive alternatives to BellSouth and are  
6 frequently choosing those alternatives.

7

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

10

11 A. Small Business customers are those customers that range from a few lines and  
12 simple services to those customers that have several lines and somewhat more  
13 complex needs. Some examples of the small business customers that have  
14 disconnected service with BellSouth to go to competitors are included in  
15 Exhibit 2. Customers like these are the lifeblood of BellSouth's Small  
16 Business Services unit. As shown by this list, competitors are winning all  
17 types of small business customer regardless of industry, size, or geography.  
18 This is the reason BellSouth's share of the small business market has been  
19 steadily declining.

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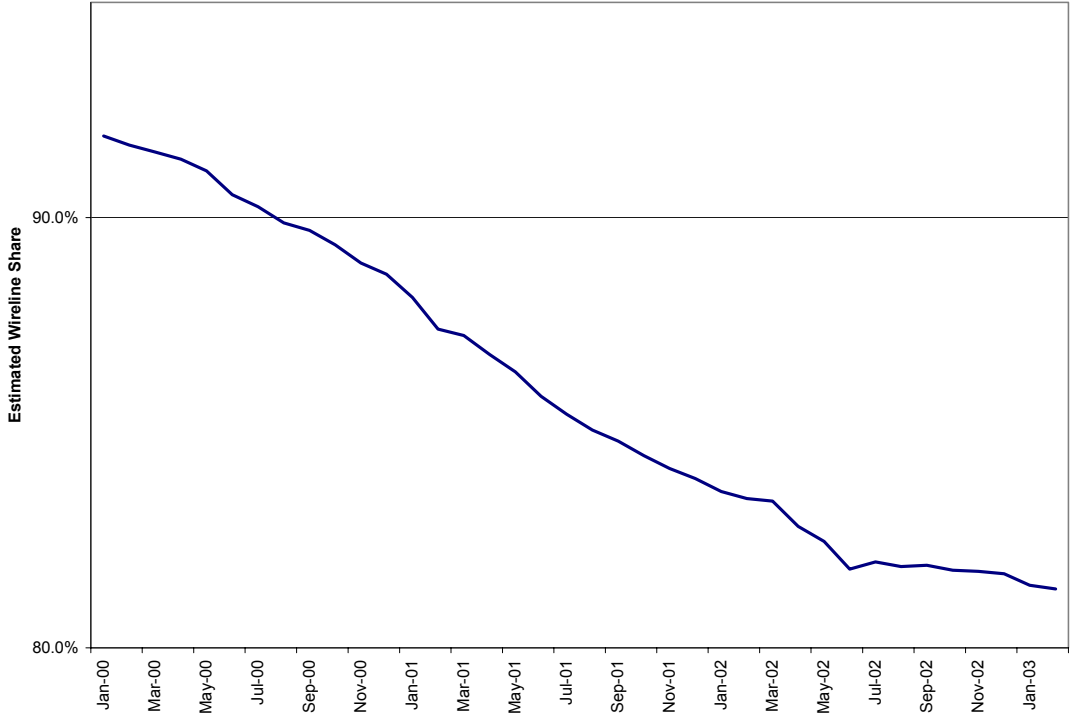
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**FIGURE 1**  
**BellSouth SBS' Estimated Wireline Share**



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

18  
19 A. Each month, BellSouth uses retail data to determine the total number of  
20 BellSouth small business switched access lines in Kentucky (“BellSouth  
21 Lines”). That number is divided by the sum of that number plus the net of: (1)  
22 the cumulative number of BellSouth small business switched access lines that  
23 have disconnected from BellSouth for what BellSouth believes, based on retail  
24 information, are competitive reasons (“Cumulative Competitive Disconnects”);  
25 and (2) the cumulative number of small business switched access lines that

1 have come to BellSouth from competitors (“Cumulative Lines Acquired from  
2 CLECs”). Stated in formula form, the equation is:

3

4

BellSouth Lines

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5

BellSouth Lines + (Cumulative Competitive Disconnects – Cumulative Lines  
6 Acquired from competitors).

7

8

The resulting figure represents the estimated percentage of small business  
9 switched access lines in BellSouth’s operating territory that are being served  
10 by BellSouth. For reasons I explain in more detail below, however, this  
11 method overestimates BellSouth’s share of small business access lines in  
12 Kentucky because it does not account for the lines that small business  
13 customers have purchased from CLECs that were not the direct result of  
14 disconnecting from BellSouth and transferring to the CLEC.

15

16 Q. HOW LONG HAS BELLSOUTH TRACKED DATA ON THE NUMBER OF  
17 LINES IT HAS ACQUIRED FROM CLECS?

18

19 A. Since January 2000.

20

21 Q. HOW CAN BELLSOUTH USE THE FORMULA DESCRIBED ABOVE IF  
22 IT ONLY BEGAN TRACKING THE NUMBER OF LINES ACQUIRED  
23 FROM CLECS IN JANUARY 2000?

24

25

1 A. BellSouth tracked competitive disconnects prior to January 2000, so BellSouth  
2 knows the Cumulative Competitive Disconnects as of the end of 1999.  
3 BellSouth used data on lines acquired from Competitive Local Exchange  
4 Carriers (“CLECs”) during the year 2000 to estimate the Cumulative Lines  
5 Acquired from CLECs as of the end of 1999. Prior to January 2000, BellSouth  
6 SBS did not have the ability to capture data on lines reacquired from CLECs.  
7 Thus, in order to present a more conservative market share number for periods  
8 prior to January 2000 (and thus, successive periods), SBS has estimated the  
9 number of lines coming back to BellSouth SBS by examining the rate of  
10 reacquisition in 2000 and applying that rate to all years prior to the year 2000  
11 (1996-1999). The rate of reacquisition was determined by taking the sum of  
12 lines reacquired each month from CLECs in 2000 and dividing it by the sum of  
13 lines lost by BellSouth SBS to competitors each month in 2000. The resulting  
14 percentage was subtracted from 100% as a means of portraying the percentage  
15 of lines that remained with CLECs once leaving BellSouth SBS. This  
16 percentage (62.5%) was multiplied against the cumulative competitive  
17 disconnects that SBS realized from January 1996 through December 1999 in  
18 order to “adjust” downward the cumulative competitive disconnects by an  
19 estimate of the number of lines reacquired by BellSouth SBS over that time  
20 frame. This “adjustment” is made in order to present a more conservative view  
21 of BellSouth SBS’s current share of small business voice access lines in the  
22 state of Kentucky, and likely overstates SBS’s current share position.  
23  
24 Q. WHAT IMPACT DOES THE USE OF ONLY RETAIL DATA HAVE ON  
25 THE CALCULATIONS YOU HAVE DESCRIBED?

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A. In all likelihood, BellSouth actually serves an even lower percentage of the small business access lines in its territory in Kentucky than is reflected in the estimates set forth in my testimony.

First, no new market growth is included in the estimates set forth in my testimony. By “new market growth” I am referring to such things as small business customers leaving BellSouth for a CLEC and then purchasing additional (or “new growth”) lines from the CLEC; brand new small businesses ordering lines from CLECs; existing BellSouth small business customers opening new locations and ordering service from CLECs at those locations; and existing BellSouth small business customers adding new lines at an existing location and purchasing those lines from CLECs. In each of these, (and other similar) situations, the lines that are being purchased never were with BellSouth. These lines therefore, are not included in BellSouth’s market share calculations because BellSouth has no retail information that indicates the existence of these lines, and the result is that BellSouth overstates its share of the small business market.

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

Q. DOES YOUR COMPETITIVE DISCONNECT COUNT INCLUDE MIGRATION TO OTHER PRODUCTS (I.E., DATA PRODUCTS)?



1

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

8

9 Q. WHAT IS THE SIZE OF THE SMALL BUSINESS ACCESS LINE  
10 MARKET IN KENTUCKY?

11

12 A. Because BellSouth has no way of knowing how many lines CLECs are  
13 providing to small business customers in BellSouth's territory, BellSouth can  
14 only estimate the number. As explained above, the method by which  
15 BellSouth uses retail data to develop that estimate understates the number of  
16 small business access lines that are being served by CLECs. With that  
17 qualification, and based on retail data only, BellSouth estimates that as of  
18 February 2003, approximately 160,184 lines were provided to small business  
19 customers in BellSouth's operating territory in Kentucky. BellSouth SBS was  
20 providing 130,336 lines (81.4%), and BellSouth estimates that CLECs were  
21 providing 29,848 lines (18.6%).

22

23 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

24

25

1 A. Even calculations that overstate BellSouth's market share show that  
2 BellSouth's share of the small business segment has declined almost 20% in  
3 the state of Kentucky, and is continuing to decline at the rate of more than  
4 0.1%-0.3% percentage points each month. BellSouth's share of the market is  
5 significantly lower in many wire centers.

6

7 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

8

9 A. Yes.

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12 Docs 489463

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