EXHIBIT ____ (MAB-2T)

[Service date: October 6, 2005]

BEFORE THE
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

In the Matter of the Joint Petition of Verizon Communications Inc., and MCI, Inc. for a Declaratory Order Disclaiming Jurisdiction Over or, in the Alternative a Joint Application for Approval of, Agreement and Plan of Merger	Docket No. UT-050814

REBUTTAL TESTIMONY OF

MICHAEL A. BEACH

ON BEHALF OF
MCI, INC.

October 6, 2005

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael A. Beach. My business address is 6415 Business Center Drive, Highlands Ranch, Colorado 80130. I am Vice President-Carrier Management for MCI.[1]

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. I prepared Direct Testimony that was filed in this docket on June 28, 2005.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. This testimony is intended to respond to the testimony of the Commission Staff, Public Counsel, Covad Communications Company ("Covad") and XO Communications Services, Inc. ("XO") that generally recommends that the Commission either reject the merger, or impose onerous and unnecessary conditions on the companies as a result of the merger. Because witnesses for other parties have exaggerated or misstated the competitive significance of MCI's business in Verizon's Washington service territory, my testimony further details MCI's presence in the mass market and enterprise market. I and other witnesses for the Joint Petitioners previously described the significant benefits that this transaction promises for our customers, so I will not repeat that discussion here. This testimony is intended to rebut the interveners' claims about the merger's effects on the enterprise market and the so-called "mid-size business" market. I also explain that the merger will have little impact on, and cause no harm to, mass

[1] MCI, Inc. identifies the holding company. I use "MCI" for ease of reference throughout this testimony to refer to the collective MCI operating companies.

market consumers. In addition, my testimony rebuts claims that the merger will diminish competition for special access services.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The interveners' testimony in this case suffers from several major flaws: they grossly overstate MCI's presence in the mass market in Verizon Northwest's exchanges; they fail to acknowledge the fact that the merger will result in more competition in the enterprise market; and they ignore the facts that MCI is providing no intrastate special access services in Washington, that in any event it has a very small presence in Verizon Northwest Exchanges, and that other competitive carriers' presence is several times larger than MCI's. In short, their testimony tries hard to manufacture alleged harms that are contrary to the facts.

First, these parties ignore the fundamental changes that have occurred in the communications industry over the past several years. The testimony of Dr. Taylor on behalf of Joint Petitioners, discusses the proper definition of the markets and the many technological and regulatory changes that have occurred in the communications industry. My testimony should be read in conjunction with his and I will not duplicate his discussion of these matters. Rather, my testimony focuses on how these dramatic changes have diminished MCI's presence in the mass market and how those changes have significantly reduced, and will continue to lessen, the significance of MCI as a competitive force in Verizon's Washington service area and elsewhere in the provision of services to the mass market. My testimony shows that these industry developments are ongoing and their impact is more likely to increase than to diminish and thus cannot be ignored when considering whether this merger harms the public interest.

The interveners' characterization of MCI's competitive presence is seriously flawed. Witnesses for Staff, Public Counsel and the CLEC parties, specifically XO and Covad, exaggerate MCI's competitive presence, and fail properly to assess MCI's minimal, and declining, presence within Verizon's Washington footprint.[2] In addition they tend to ignore or dismiss the significant developments in the market and regulatory landscape that have led to the decline of MCI's impact on mass markets competition. Thus, the interveners fail to acknowledge the clear, unmistakable consequences of these profound developments: MCI today is not a significant participant in the mass market, and MCI is not and will not be an important constraint on the pricing practices of Verizon in the mass market. This fact, coupled with the increasing availability of competitive service options, means that the merger between MCI and Verizon will not have any harmful impacts on any mass market segment, either residential or small business.

Interveners have also misconstrued the nature of the transaction as it affects MCI's role in the enterprise market, and suggest incorrectly that MCI will be eliminated as a competitive force in this important market segment.[3] In fact, the combination of MCI's and Verizon's complementary assets, together with Verizon's pledge to make substantial new investment in MCI's network and systems, will strengthen MCI and benefit its enterprise customers both within

[2] For example, see Roycroft (Public Counsel) at pp. 32-33; Roth (Staff) at p. 17; Wood (XO and Covad) at pp. 4, 7, 15-16, 24; King (Public Counsel) at 23 goes so far as to mischaracterize MCI as a "provider that apparently wants to abandon them" [referring to mass market customers].

[3] See Roycroft at p. 65 (Discussing the long distance market, "the elimination of MCI from the market will remove a competitive choice from the marketplace."); Roth at p. 10 ("it is much harder to replace MCI as a source of pricing restraint on Verizon, Qwest and the other incumbents."); Wood at pp. 15-16 ("In most markets, the largest and most ubiquitous CLEC competitors (at least pre merger) are AT&T and MCI. The elimination of these competitors will directly impact the availability of both wholesale and retail competitive alternatives.")

Washington and elsewhere. It defies logic, and makes no sense to me as a business person, that Verizon would pay a healthy price to acquire MCI, only to then abandon MCI's assets, employees and enterprise customer base precisely in those areas – outside of Verizon's traditional local footprint – where Verizon's own enterprise business is limited. This is particularly true in Washington, where MCI's facilities are located overwhelmingly in Seattle, which is in Qwest's territory. Rather than eliminate MCI, whose primary focus and success has been in the enterprise space, the merger will enhance the combined companies' efforts to compete nationwide against very able and well-positioned competitors such as Qwest, SBC/AT&T, XO, Covad and Integra.

The parties also are simply wrong regarding the potential impact of the merger on special access services in Washington. My testimony shows that MCI has relatively few network facilities within Verizon Washington's service territory, whereas there is an ample supply of other competitive facilities. Moreover, what special access services MCI provides in Washington are jurisdictionally interstate and provided pursuant to contract. MCI sells no intrastate special access services in this state. More pointedly, MCI provides almost *no* special access services in Verizon's service territory to XO and Covad, the CLEC parties to this proceeding that complain about special access issues. Given these companies' minimal use of MCI special access services, and the existence of substantial network facilities operated by competitive carriers, these parties will suffer no harm and will not be inconvenienced in any material way, even if MCI were to cease offering special access services to CLECs following the merger. In any case, there has been no decision made at this point about any change to MCI's marketing and service plans.

II. MASS MARKET ISSUES

Q. WILL THE MERGER HARM COMPETITION IN THE MASS MARKET, AS THE INTERVENORS HAVE CLAIMED?[4]

A. The interveners' testimony ignores or downplays the changes in recent years that have dramatically altered MCI's position in the residential and small business market in Washington. On the one hand, they generally understand that MCI's business has suffered some serious setbacks, but they then fail to acknowledge that the difficulties MCI has faced and the dramatic changes that have occurred recently in the industry and in the regulatory landscape have vastly reduced the company's competitive significance in the mass market.

While most of the interveners readily acknowledge that the competitive and regulatory developments that I address have seriously impacted the CLEC industry, including MCI,[5] they completely ignore the fact that MCI's reduced competitive presence means that the company does not provide any meaningful constraint on the pricing practices of Verizon Washington. Moreover, MCI serves a minimal number of mass market customers in Verizon territory in Washington. Because MCI does not fulfill a constraining role in the mass market, its merger with Verizon will not result in a material harm to the public interest, as the interveners charge.

Q. PLEASE DESCRIBE THE CHALLENGES FACED BY MCI'S MASS MARKETS BUSINESS.

A. MCI's traditional long distance business has experienced a steady and dramatic decline over a period of years. In my Direct Testimony, I explained the

[4] See for example, Roycroft at pp. 33-34; Roth at p. 17.

[5] See Roycroft at pp. 8-12.

various reasons why this has occurred.[6] A principal reason has been the rapid expansion and consumer acceptance of technical alternatives to traditional wireline telephony.[7] Since 1998, MCI has experienced a profound erosion of its long distance business due to wireless substitution. As consumers' calling habits evolve, such as using wireless for a substantial amount of long distance calling, they tend not to distinguish between local and long distance, but simply rely on wireless as a convenient way to communicate. Thus, our experience confirms the observations of Dr. Taylor about growing consumer acceptance of wireless. The same reasons cause me to disagree with intervener witnesses who attempt to downplay the extent and significance of wireless substitution for traditional wireline services.

MCI has also been hindered in its ability to keep pace with increasing consumer demand for bundled product offerings, largely because MCI lacks wireless and broadband capabilities, or the ability to provide local access over facilities it owns and controls. Because of this, MCI does not and will not be able to play an important role in the mass market.

These developments impact MCI's traditional long distance business and its local business as well. Given these clear trends, there is no credible basis for Ms. Roth's (at p. 17) and Dr. Roycroft's (at pp. 33-34) speculation that in the absence of the merger, MCI might be a significant competitor in the mass market in the future.

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[6] Direct Testimony of Michael Beach at pp. 10-13. There, I also described the effects on MCI's mass market business of Do Not Call regulations and RBOC entry into the long distance business.

[7] In addition to wireless, MCI and other traditional wireline providers have begun to encounter competition from broadband-based services, including Voice over Internet Protocol ("VoIP") offerings. Because e-mail and instant messaging have already displaced a considerable amount of traditional wireline long distance traffic, it seems likely to me that the Internet will increasingly be used by consumers to displace traditional wireline long distance voice traffic.

No amount of wishful thinking is likely to result in repeal of the Do Not Call regulations, encourage Congress to re-institute bundled local networks at TELRIC rates, remove the RBOC's ability to offer bundled local and long distance services, or reduce the number or scope of intermodal offerings. Since those changes most certainly will not occur, MCI will not be able to return to a position to impact the direction of mass markets competition.

Q. DR. ROYCROFT ON BEHALF OF PUBLIC COUNSEL CLAIMS THAT HIS "MOST SIGNIFICANT COMPETITIVE CONCERN" IS THAT MCI WILL NO LONGER COMPETE AGAINST VERIZON IN VERIZON'S SERVICE TERRITORY IN WASHINGTON.[8] MS. ROTH ON BEHALF OF STAFF ALSO CLAIMS THAT LOSING MCI AS A COMPETITOR WILL HARM COMPETITION.[9] IS MCI SUCCEEDING IN PROVIDING LOCAL SERVICE TO THE MASS MARKET?

A. No. MCI's overall consumer business has been affected by the factors I have described. In fact, it was partly because these industry trends made it difficult for MCI to grow its traditional long distance business that MCI sought out other opportunities and entered the local service market a few years ago. In order to differentiate itself in consumers' eyes, MCI introduced an integrated local and long distance product, called The Neighborhood. With The Neighborhood, MCI primarily focused on promoting its integrated product; it did not concentrate on building a standalone local residential product. Indeed, in August 2005, MCI served only **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** stand alone residential local access lines in all of Washington. While the integrated product was attractive initially, the nature of integrated products has evolved, and MCI is not

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8 Roycroft at 67; see also Roycroft at 33-34.

9 Roth at 11-13; 16-17.

currently equipped to offer the full range of services that many consumers now desire, especially broadband and wireless. In addition, MCI faces increased competition in this segment from wireless providers, cable companies, and other VoIP service providers. As I have explained in my Direct Testimony and previously in this testimony, the establishment of the Do Not Call list, the increased use of wireless phones for long distance, and Bell entry into the long distance business and introduction of their own integrated offerings, have all severely hampered MCI's efforts to obtain new customers for our local services and integrated local/long distance products.

MCI provides local service to residential customers in Verizon Washington's territory exclusively using unbundled network elements. Recent regulatory and legal developments have eliminated unbundled switching as a service delivery vehicle, necessitating replacement commercial agreements. Since I submitted my Direct Testimony in June 2005, MCI has finalized such a commercial agreement with Verizon to lease the piece parts of Verizon's local network. Like the agreements MCI has entered into with other incumbent local exchange carries, the commercial rates under the Verizon agreement are higher than the regulated UNE prices we previously paid and will escalate each year. These changes have negatively affected the economics of MCI's local consumer business, both now and on a going forward basis, and have made the company substantially less competitive.

Importantly, these problems exist with or without Verizon's acquisition of MCI. In these criticisms, the opponents of the merger significantly ignore the fact that MCI's decline in the mass market segment of our business is not caused by the merger.

In any event, as the local access line count in the table below demonstrates, MCI is not a significant competitor in the mass market in Verizon's territory in Washington. Thus, even if MCI discontinued providing local service to mass market customers in Washington, as Dr. Danner explains, competition would not be significantly harmed.

Q. IF MCI IS NOW PAYING HIGHER RATES FOR NETWORK ACCESS UNDER ITS COMMERCIAL AGREEMENTS, HOW DOES THAT AFFECT MCI'S COMPETITIVE POSITION IN THE CONSUMER MARKET?

A. The higher prices under the commercial agreements give MCI no choice but to continue to raise retail rates in order to serve our existing base of customers. For example, during the past year, MCI has already increased the price for many Neighborhood customers, increased certain surcharges and imposed new fees. In addition, the company has had to cut back on marketing and sales activities and cut other costs in the mass markets business unit in order to operate within the new wholesale cost structure. All of the external developments that are driving these changes have occurred, and will continue, with or without this merger.

As a result of these changes, MCI is not in a position to put price pressure on Verizon's current retail rates. That pressure comes instead from other competitive alternatives, including cable, wireless and VoIP, which do not depend on using Verizon's facilities.

Q. DR. ROYCROFT ARGUES THAT MCI COULD COMPETE IN THE MASS MARKET USING A VOIP STRATEGY.[10] WHAT IS YOUR RESPONSE?

A. MCI cannot reverse its decline through a mass market VoIP offering. MCI is providing a limited, resale-based trial offering of VoIP service to mass market customers this year. MCI plans to test various marketing channels, including direct mail, online media, and telemarketing, and is targeting approximately 5,000 customers for the trial offering nationwide. But even if the trial were to prove successful enough to justify a commercial launch, MCI would be entering a field in which numerous other VoIP providers are already competing with one another and with wireless, cable and wireline carriers. The introduction of additional entrants over the past two years, including Google and Yahoo, in addition to Vonage and Skype, makes it difficult for a new VoIP service to change the direction of MCI's downward trajectory in the mass market telecommunications business. Despite MCI's efforts over the last several years to reverse the trend, we have concluded that residential and small business local service is not a viable long term option for the company.[11]

[10] Roycroft at pp. 55-56.

[11] MCI at one time also evaluated the potential to serve the mass market using UNE-L – leasing the loop from the incumbent but using MCI switching and transport facilities. After several trials, we decided not to pursue it for a host of reasons, including the elimination of UNE-P, growing intermodal competition, a shrinking customer base, the cost of new OSS and the unavailability of fiber fed loops on an unbundled basis. In addition, we concluded that it was not prudent to retrofit the network to provide a service using last generation technology while at the same time attempting to move our network forward to provide services that require next generation technology.

Q. DR. ROYCROFT CHALLENGES YOUR CLAIM THAT MCI'S MASS MARKET BUSINESS IS DECLINING IN WASHINGTON.[12] YOU PROVIDED DATA ON THIS ISSUE IN YOUR DIRECT TESTIMONY. DOES MORE RECENT DATA AFFIRM YOUR CONCLUSIONS THAT MCI'S MASS MARKET BUSINESS IS IN A STATE OF DECLINE?

A. Yes. My Direct Testimony provides detailed data describing MCI's declining business in terms of revenue, customer counts, and usage, as well as the decrease in marketing and advertising efforts, both in Washington and nationwide.

More recent data also support these conclusions. The number of MCI's Washington residential local access lines peaked in July 2004 and has continued to decline since then. Within Verizon's service territory, the number of MCI's residential local access lines peaked in May 2005, and has since begun to decline, as predicted based on MCI's experience elsewhere, and as evidenced by the most recent customer line count. At our peak, we only served less than 1% of the residential local access lines available in Verizon territory.[13]

The numbers in the first table below represent both MCI stand alone local and integrated local/long distance access lines in Washington.

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[12] Roycroft at p. 34.

[13] This calculation is based on the numbers contained in Verizon's Highly Confidential Exhibit responding to Public Counsel Data Request No. 39.

A. RESIDENTIAL LOCAL AND INTEGRATED ACCESS LINES

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[redacted]

[END HIGHLY CONFIDENTIAL INFORMATION]

Meanwhile, both the number of MCI's residential long distance accounts, and the revenues obtained from those customers have continued to decline in Washington, as the data below reveal.

B. RESIDENTIAL STAND-ALONE LONG DISTANCE ACCOUNTS

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[redacted]

[END HIGHLY CONFIDENTIAL INFORMATION]

[14] In the Qwest region, MCI has commercial agreements with two local exchange service providers, pursuant to which MCI essentially resells those carriers' switched local service. This chart shows the total number of customers MCI services through these arrangements.

C. RESIDENTIAL STAND-ALONE LONG DISTANCE REVENUES

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]

[redacted]

[END HIGHLY CONFIDENTIAL INFORMATION]

MCI's actual operating experience in Washington shows a clear trend of decline that will continue into the future.

Moreover, MCI's mass market operations are national in scope. While rates and other terms and conditions of service may vary from state to state, in virtually every respect, MCI treats its mass market operations as one national operation. In particular, it offers virtually the same products across the country, the marketing operation is national in scope and other aspects of the business such as ordering and provisioning activities, operate nationally and not at a state specific level.

III. ENTERPRISE MARKET ISSUES

Q. WILL THE MERGER HAVE ADVERSE EFFECTS IN THE ENTERPRISE MARKET?

A. No. On the contrary, this transaction will strengthen the two companies' ability to compete in this dynamic market. This will be achieved through the combination of complementary assets that will better enable the post-merger company to serve enterprise customers in Washington, nationally and around the world. Dr. Taylor has identified the large number of significant competitors that operate in this arena. It bears emphasizing that enterprise business customers operate on a global stage, and they increasingly seek to have their telecommunications needs met by global players. For example, Bristol Myers, a company headquartered in the United States, recently awarded a significant contract to the European firm, BT. To be successful, domestic telecommunications service providers that operate in this new environment must strive to expand their capabilities and enhance their competitive posture. That is precisely what MCI and Verizon are seeking to accomplish through this transaction.

Interveners who argue that MCI will be eliminated as a competitor in the enterprise segment simply do not understand the rationale for, and the benefits of, this transaction. Currently Verizon's strengths lie in its local and wireless services while MCI's strengths lie in its long distance, data, Internet and other customized services for enterprise customers. The combined enterprise will be better equipped to provide *all* of these services than either company would have been alone. Verizon has also committed to invest more than $2 billion in MCI's network and systems, which will improve the quality of service that MCI and the new company can offer current and future enterprise customers.

While some interveners speculate that the combined company will intentionally avoid competing outside of Verizon's relatively small footprint in Washington,[15] that notion defies logic and good business sense. Verizon would not pay several billion dollars to acquire MCI, only to then turn its back on the tremendous assets, customer base and sales and service support that MCI possesses outside of Verizon's territory in Washington. Indeed, the overwhelming majority of MCI's assets in Washington are in Seattle, which is in

[15] See for example, Mr. Wood's testimony at p. 24.

Qwest's region, and not in Verizon territory. Confidential Exhibit MAB–3C highlights this point by displaying, on maps, the location of MCI facilities in downtown Seattle (all Qwest territory) and a regional view of how MCI and Verizon facilities will combine in the Seattle-Tacoma-Bellevue area. Curiously, the interveners discussed this issue in terms of Verizon and SBC not competing with each other in other states after their respective mergers and did not address this issue with respect to Verizon and Qwest, which are the two largest ILECs who (unlike SBC) actually operate in Washington.[16]

In any event, contrary to the unsubstantiated claims of interveners, after the merger, the combined company will be better able to serve the needs of enterprise customers throughout Washington, nationally and around the globe, and should be expected to do so.

Q. DR. ROYCROFT SUGGESTS THAT SOME OF THESE BENEFITS COULD ACCRUE WITHOUT THE ACQUISITION.[17] FOR INSTANCE, VERIZON SIMPLY COULD LEASE INTERNET BACKBONE AND OTHER FACILITIES FOR ENTERPRISE CUSTOMERS FROM MCI. WHY IS OWNING THE FACILITIES PREFERABLE TO LEASING THEM?

A. Expanding on the points made by Dr. Danner, when MCI considers leasing as opposed to ownership, several advantages to owning the facilities are considered. Owning facilities provides a greater ability for MCI to manage diversity. Owned facilities also allow MCI to deploy and use remote testing capability not available on leased services. This improves trouble isolation and restoral time. And, in the event of failure, owned facilities are accessible for immediate rerouting on a physical or remote basis. Leasing facilities also

[16] Qwest is the only Regional Bell Operating Company operating as an ILEC in Washington.

[17] See Roycroft at p. 25.

prevents MCI from the ability to monitor inventory and predict future availability of capacity on that route. When MCI owns facilities, it is in a position to readily prioritize repair of critical customers' service such as circuits provided subject to the Telecommunications Service Priority (TSP) System for National Security and Emergency Preparedness (NSEP). There are often also financial benefits to ownership that do not exist for leased capacity.

Q. DO YOU AGREE WITH MR. WOOD'S ASSERTION ON BEHALF OF XO AND COVAD THAT MID-SIZED BUSINESS SERVICES CONSTITUTE A DISTINCT MARKET BECAUSE THE SERVICES THEY PURCHASE ARE TYPICALLY PROVISIONED THROUGH T-1 CAPACITY CIRCUITS?[18]

A. No, I do not. Mr. Wood contends at pages 14-15 of his testimony that there is a distinct market for "mid-sized" business services on the basis that such customers are typically provisioned over T-1 or high capacity circuits and purchased at the local level. However, he fails to clearly define this so-called market, and does not explain why he believes it represents a significant market segment. More important, Mr. Wood's characterization of this market segment does not square with MCI's experience. T-1 circuits are used by MCI and by others in the industry generally to provide a broad range of voice, data and Internet-based services for enterprise customers of every size. For example, many of MCI's largest enterprise customers have multiple branch offices that receive service through T-1 circuits. For that reason, claims that customers who purchase T-1 circuits are part of some separate class of customer make no business sense and do not accurately reflect the way that business customers actually purchase service. Small business service is one end of a continuum whose other end point

[18] Wood at pp. 14-15.

is made up of the largest multi-national corporations. Mr. Wood fails to demonstrate how the particular class of customers he attempts to identify is or would be affected by the transaction.

Q. DOES MCI PROVIDE RETAIL COMPETITION TO THE LOWER END OF THE ENTERPRISE MARKET?

A. MCI's enterprise business is primarily focused on larger companies that have a regional, national or international presence. MCI defines these large enterprise customers generally as those that have more than 1,000 employees and spend more than $2,000,000 a year on communications services (although not necessarily all with MCI). MCI's focus is on these customers because MCI, as a national and global carrier, has devoted its resources principally to providing complex solutions (such as managed network services, IP services, security, and web hosting) to the very largest businesses. MCI can meet these customers' needs at multiple locations, provide these customers with the more sophisticated services they require and, to a greater degree, serve them completely on its own network. In Washington, MCI has a sales force located in Seattle that is focused on selling to and serving this group of customers.

MCI generally considers a "small business" customer to be one that has fewer than 100 employees. Nationwide, 95% of businesses have fewer than 100 employees. Such customers typically purchase relatively simple, "plain vanilla" services out of MCI's General Service Agreement. From a sales standpoint, MCI serves these customers like other mass market customers and generally approaches them through the same sales channels that we use to acquire residential consumers.

MCI has found that it is not as successful in competing for and serving smaller business customers (those at the low-end of the enterprise market) as it is with business customers who have more complex telecommunications needs and have a relatively greater amount of expenditures on telecommunications services. Smaller business customers typically do not have a need for the high-value products MCI offers and can be served by the many regional or local competitors that are successful in that market. Also, given MCI's lack of local access facilities, MCI is unable to provide smaller business customers competitively-priced, low-cost local access as compared to companies like Qwest that own local facilities directly serving those customer locations. Thus, even if one were to look at the slice of business customers that Mr. Wood seems to be concerned about, they are not within the large enterprise customer group segment where MCI is most successful and MCI does not have a significant competitive presence among the group of users Mr. Wood describes. Accordingly, Verizon's acquisition of MCI will not decrease retail competition for these business customers by any significant degree in any area of Washington.

This is particularly true in Verizon territory in Washington, where MCI has a small competitive presence.

IV. SPECIAL ACCESS SERVICES

Q. MR. WOOD ON BEHALF OF XO AND COVAD STATES THAT THE ELIMINATION OF MCI AS A CURRENT AND FUTURE PROVIDER OF WHOLESALE BUILDING ACCESS SERVICES WILL LIKELY INCREASE PRICES AT THE WHOLESALE LEVEL. HE ALSO CLAIMS THAT BENEFITS DERIVED FROM THE NEGOTIATING LEVERAGE OF MCI WILL NO LONGER BE PASSED THROUGH TO THE BROADER COMPETITIVE CARRIER COMMUNITY.[19] DO YOU AGREE?

A. No, I do not. Mr. Wood exaggerates the role of MCI as a competing provider of special access services in Verizon's local service area in Washington. As a result, he greatly exaggerates the potential impact of the merger on special access services.

Q. WHAT FLAW DO YOU SEE IN MR. WOOD'S EVALUATION OF THE SPECIAL ACCESS MARKET?

A. The problem with his analysis is that he applies a broad-brush analysis to the special access market that ignores the actual conditions of that market in the portion of Washington served by Verizon. In fact, MCI has relatively few special access facilities within Verizon's Washington service territory, and there is an ample supply of other competitive facilities. Moreover, the special access services that MCI does provide in Washington are jurisdictionally interstate and provided pursuant to contract. MCI sells no intrastate special access services in Washington. More pointedly, MCI provides almost no special access services in Verizon's service area to the CLEC parties to this proceeding. Given these companies' minimal use of MCI special access services, and the existence of substantial network facilities operated by competitive carriers, these parties will suffer no harm and will not be inconvenienced in any material way once the

[19] See Wood at pp. 4, 7 and 78.

merger is completed, even assuming (without any proven basis) that the post-merger MCI would offer even fewer special access services to CLECs.

Q. CAN YOU DOCUMENT THE MAGNITUDE OF MCI FACILITIES IN VERIZON'S WASHINGTON SERVICE AREA?

A. Yes, I can. MCI's fiber network serving Washington communities is predominantly located in urban locations served by Qwest. Only a very small proportion of MCI's fiber facilities and buildings served by MCI fiber is located within the Verizon service footprint. As I pointed out in my Direct Testimony, out of approximately [**BEGIN HIGHLY CONFIDENTIAL INFORMATION**] [redacted][**END HIGHLY CONFIDENTIAL INFORMATION**] "lit" buildings[20] and central offices connected to MCI fiber in Washington, only [**BEGIN HIGHLY CONFIDENTIAL INFORMATION**] [redacted][**END HIGHLY CONFIDENTIAL INFORMATION**] [21] of these are commercial buildings within Verizon's local service territory. Thus, only 22 percent of MCI's "lit" buildings are in Verizon territory in Washington. The large majority – 78 percent – of the buildings to which MCI fiber connects are in Qwest territory.[22]

In addition, as Dr. Taylor demonstrates in his testimony, where MCI does have fiber connected to commercial buildings in the Verizon local service areas, there are, in almost all instances, other competitive local carriers with fiber routes in the immediate vicinity. MCI built fiber routes only in the Seattle MSA, in

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[20] When I use the term "lit" buildings in my testimony, I refer to any building to which MCI has deployed fiber, two of which are Verizon central offices. Only 75% of the buildings identified have electronics attached to the fiber cables. In addition, three of the buildings to which MCI has deployed fiber do not contain Verizon fiber, only copper.

[21] This is a correction to the number provided in my Direct Testimony at page 7. The total in the state provided in my Direct Testimony is correct, however, the number located in Verizon territory is corrected here.

[22] See maps attached as Exhibit MAB 3C.

places where other fiber providers are also present. MCI has fewer than **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** route miles of fiber in the state. Dr. Taylor's testimony presents a map demonstrating significant overlap of MCI and other CLEC fiber in Verizon territory in Washington.

Another fact that demonstrates MCI's insignificance as a wholesale provider of fiber facilities in Washington in Verizon territory is that MCI has fiber based collocation in only **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** wire centers in Verizon territory, located in **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]**. Dr. Taylor points out that at least 15 additional competitors have installed their own fiber to each of these wire centers.

Moreover, at least 5 other fiber based collocators are present in [**BEGIN HIGHLY CONFIDENTIAL INFORMATION**] [redacted] [**END HIGHLY CONFIDENTIAL INFORMATION**] and at least one other fiber based collocator is located in **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]**.

In sum, within the Verizon service footprint, MCI simply does not have the scale of operations or facilities necessary to provide a constraint on Verizon's pricing of special access services. Furthermore, as the above data and the data in Dr. Taylor's testimony demonstrates, alternative service options other than MCI are present in the few locations in Verizon territory where MCI has installed its own fiber. Consequently, the removal of MCI as an independent competitor for the provision of wholesale transport services will not significantly affect the competitive choices available to CLECs that do not have their own fiber in Verizon territory in Washington.

Q. DOES MCI PROVIDE SIGNIFICANT AMOUNTS OF SPECIAL ACCESS SERVICES TO INTERVENORS AND OTHER CLECS IN VERIZON'S SERVICE AREA?

A. No, it does not. I understand that MCI served discovery on the interveners in this case, requesting information about whether they actually purchase any wholesale special access services from MCI today in Washington. Apparently, they have either refused to answer the questions or have found none. Nonetheless, based on MCI's internal data, it appears that XO and Covad purchase almost no special access services from MCI in Verizon territory in Washington. If MCI is not providing competitive service now, its "absence" after the merger will have no effect.

Q. AT PAGES 61-62 OF HIS TESTIMONY, MR. WOOD SUGGESTS THAT MCI HAS NEW INCENTIVES TO CONSTRUCT LOCAL ACCESS FACILITIES AND EXPAND ITS LOCAL WHOLESALE OPERATIONS. WHAT DO YOU THINK OF HIS SUGGESTION?

A. Mr. Wood's argument is wholly speculative, rests on a series of generalizations, and makes no sense to me. He opines that, with the demise of MCI's mass markets business, the company has "new" incentives to focus on the enterprise market and this, in turn, will give MCI "strong incentives … to build or lease more alternative facilities, and … expand[] its local wholesale operations.[23] As I have explained before, MCI's mass market business has been in decline for several years, and MCI has maintained a primary focus on the enterprise market

[23] Wood at pp. 61-62.

during that period. Thus, there is nothing "new" about the company's incentives or goals to serve "enterprise" customers. If what Mr. Wood is saying were true, MCI would already have pursued the "opportunities" he describes. MCI invests in and deploys local facilities if and where it makes sense to better serve our enterprise customers. The company has not determined that it is prudent, or consistent with our focused business strategy, simply to build more local access facilities generally in the hope that we could then resell such capacity to other CLECs.

V. MISCELLANEOUS ISSUES

A. <u>MCI's Advocacy on Intermodal Competition is Not Inconsistent</u>

Q. DR. ROYCROFT, ON BEHALF OF PUBLIC COUNSEL ASSERTS PETITIONERS' ASSERTIONS ABOUT THE SCOPE AND MEANING OF INTERMODAL COMPETITION IS INCONSISTENT WITH MCI'S PRIOR ADVOCACY.[24] DO YOU AGREE?

A. No. In support of this claim, Public Counsel's witness referred to a pleading that MCI filed a year ago in an FCC proceeding in which the issues were very different than those presented here.[25] That proceeding occurred in the wake of a judicial remand of the FCC's earlier *Triennial Review* order. On remand, the FCC did not undertake to evaluate the state of competition. Rather, the central question before the Commission was whether competitive local exchange carriers would be "impaired" if they were denied access to unbundled switching provided by the ILECs. In that context, whether other intermodal alternatives could substitute for the lack of ILEC switching may have been pertinent to the FCC's evaluation, but that is not the issue that is being addressed here by the Petitioners.

[24] Roycroft at pp. 12-12, 42 and 64.

[25] Id.

Thus, Public Counsel mischaracterizes MCI's earlier comments in a different forum and took them out of context.

Moreover, if the Office of Public Counsel were interested in accurately understanding MCI's views with respect to intermodal competition, it need look no further than what MCI did, in fact, say to state regulators and legislators about this topic in Seattle more than a year ago. An MCI executive described in considerable detail the various types of alternative technologies and non-traditional service providers, including cable companies, wireless carriers, VoIP providers and ISPs, that are increasingly competing against traditional wireline carriers. At that time, MCI urged public policy makers to undertake fundamental changes in state regulation of the telecommunications industry in light of these dramatic marketplace developments.[26] MCI conveyed the same message to state regulators at the national NARUC convention in November 2004, again stressing the increased significance of intermodal alternatives.[27] During the fall of 2004, MCI filed pleadings before several state commissions in the western United States, describing the nature and extent of intermodal competition, and recommending policy changes that were appropriate given changed market conditions.[28] These earlier public statements and regulatory filings are fully consistent with the Petitioners' position here on intermodal competition. Those pleadings, which were filed months before any merger announcement, more accurately reflect MCI's views about the nature of intermodal competition, and

[26] Presentation of Carl Giesy, MCI, to American Legislative Exchange Council dated, July 30, 2004.

[27] November 2004 letter from Marsha Ward, MCI National Director, State Regulatory to NARUC.

[28] See also Direct Testimony of Don Price, MCI, Inc., Arizona Corporation Commission, Docket No. T-01051B-03-0454 (November 18, 2004) and MCI's Opening Comments on Assigned Commissioner and Administrative Law Judge's Ruling Inviting Comments Regarding the Scope and Schedule of Phases 3A and 3B, California Public Utilities Commission, Docket No. R.01.09.001 (November 4, 2004).

are entirely consistent with its position in this proceeding. Public Counsel's attempt to glean inconsistencies in MCI's position is simply wrong.

B. MCI's Ability To Provide Service Quality Reports Required For Class A Companies

Q. AT PAGES 35-38, MS. ROTH, ON BEHALF OF STAFF, DISCUSSES MCI'S ABILITY TO COMPLY WITH WAC 480-120-439 AS IT APPLIES TO CLASS A COMPANIES. IS MCI CURRENTLY ABLE TO PROVIDE CLASS A COMPANY REPORTS CONSISTENT WITH THE REQUIREMENTS OF THAT RULE?

A. No, not entirely. As a preliminary matter, as Ms. Roth explains, MCI currently is a Class B company in Washington as it pertains to WAC 480-120-439. Therefore it does not, and is not required to provide the Commission with the reports that are discussed in that particular rule. In the discovery process of this matter, however, MCI provided Staff with limited reports on its mass market local service quality in Washington.

MCI is not able to provide reports addressing all of the information required by WAC 480-120-439. MCI provides mass market local service in Washington through the leasing of facilities of other local exchange carriers, such as Qwest and Verizon Northwest. MCI relies on these underlying carriers for key aspects of service to its end users, including installation, repair and maintenance of facilities. Therefore, MCI does not always have access to records that relate to these activities. For example, MCI does not receive information from the underlying LEC relating to missed appointments. Therefore, MCI is unable to provide information required by the Missed Appointments rule. For the same reason, the maintenance and repair service quality data that MCI is able to provide the Commission is a reflection of the performance that the underlying LEC delivers to MCI customers as reported by the LECs. This data is not always provided to MCI in the manner required by the rules. And, as noted by Ms. Roth, MCI is unable to provide information related to switching and trunking performance on facilities leased to MCI by other carriers.

In addition, MCI has no business reason to sort its customers by central office and maintains no customer records on a central office basis. MCI's records generally are maintained on a statewide basis. Consequently, MCI cannot produce data on a central office basis, as specified by several of the rules.

I understand that when it becomes necessary, consistent with Commission procedure, MCI intends to seek waivers of the rules with which is cannot comply, such as those examples highlighted above.

C. Customer Change Charge Issue As It Affects MCI Customers

Q. DR. ROYCROFT RECOMMENDS THAT THE COMMISSION REQUIRE VERIZON TO WAIVE SERVICE ESTABLISHMENT CHARGES (APPARENTLY) FOR CURRENT MCI SUBSCRIBERS WHO DECIDE TO TAKE SERVICE FROM ANOTHER CLEC. DOES MCI CHARGE CUSTOMERS WHO SWITCH AWAY FROM MCI SERVICES?

A. No. MCI generally does not impose a charge on its customers who choose to leave MCI. An MCI fee ($1.25 per toll service) only applies when an MCI local customer discontinues its intraLATA and/or interLATA toll service and MCI continues to be the local provider. This rarely occurs. If an MCI customer has Qwest or Verizon for local service and leaves MCI for another long distance carrier, there is no MCI charge to terminate service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.