

00534

1

BEFORE THE WASHINGTON UTILITIES AND

2

TRANSPORTATION COMMISSION

3

4 In the Matter of the Petition) Docket No. UT-991991
of) Cause No. U-86-79
5 MCI WORLDCOM, INC. and SPRINT) Cause No. U-86-101
6 CORPORATION,) Volume VI
) Pages 534-850
7 for an Order Disclaiming)
Jurisdiction, or in the)
8 Alternative, Approving the)
Transfer of Control of Sprint)
9 Corporation's Washington)
Operating Subsidiaries to MCI)
10 WORLDCOM, Inc.)
)
11 In the Matter of the Petitions)
of)
12 U.S. SPRINT COMMUNICATIONS)
13 COMPANY, and)
)
14 MCI TELECOMMUNICATIONS)
CORPORATION)
15 _____)

16

17 A hearing in the above matter was
18 held on May 18, 2000, at 8:28 a.m., at 1300 Evergreen
19 Park Drive Southwest, Olympia, Washington, before
20 Administrative Law Judge KAREN CAILLE, Chairwoman
21 MARILYN SHOWALTER, Commissioner RICHARD HEMSTAD, and
22 Commissioner WILLIAM R. GILLIS.

23

24 The parties were present as
25 follows:

00535

1 MCI WORLDCOM, INC., by Jean L.
2 Kiddoo, Attorney at Law, Swidler, Berlin, Shereff,
3 Friedman, LLP, 3000 K. Street, N.W., Suite 300,
4 Washington, D.C., 20007-5116, Ann E. Hopfenbeck,
5 Attorney at Law, 707 17th Street, Suite 3600, Denver,
6 Colorado, 80202, Brooks Harlow, Attorney at Law, 4400
7 Two Union Square, 601 Union Street, Seattle,
8 Washington 98101, and Anthony C. Epstein, Attorney at
9 Law, Steptoe & Johnson, 1330 Connecticut Avenue,
10 N.W., Washington, D.C., 20036 -1795.

11 SPRINT CORPORATION, by Eric S.
12 Heath, Attorney at Law, 330 S. Valley View Boulevard,
13 Las Vegas, Nevada 89107.

14 SBC COMMUNICATIONS, INC., by
15 Patrick J. Pascarella, Attorney at Law, 175 E.
16 Houston Street, San Antonio, Texas, 78205, and Judith
17 A. Endejan, Attorney at Law, Williams, Kastner &
18 Gibbs, Two Union Square, 601 Union Street, Suite
19 4100, Seattle, Washington 98101.

20 THE COMMISSION, by Jonathan
21 Thompson, Assistant Attorney General, 1400 S.
22 Evergreen Park Drive, S.W., P.O. Box 40128, Olympia,
23 Washington 98504-0128.

24 PUBLIC COUNSEL, by Robert Cromwell,
25 Jr., Assistant Attorney General, 900 Fourth Avenue,
#2000, Seattle, Washington 98164.

16
17
18
19
20
21
22
23

24 Barbara L. Nelson, CSR
25 Court Reporter

00536

1		
2		
3		
4	WITNESS:	PAGE:
5	SALLY McMAHON	
6	Direct Examination by Ms. Hopfenbeck	538
7	Cross-Examination by Mr. Thompson	540
8	Cross-Examination by Mr. Cromwell	594
9	SEPARATE AND CONFIDENTIAL RECORD	598-604
10	Cross-Examination by Mr. Pascarella	632
11	Examination by Chairwoman Showalter	639
12	Redirect Examination by Ms. Hopfenbeck	667
13	Recross-Examination by Mr. Cromwell	672
14	DR. JERRY A. HAUSMAN	
15	Direct Examination by Mr. Pascarella	676
16	Cross-Examination by Mr. Epstein	678
17	Examination by Chairwoman Showalter	799
18	Examination by Commissioner Gillis	810
19	Examination by Chairwoman Showalter	819
20	Redirect Examination by Mr. Pascarella	820
21	Recross-Examination by Mr. Epstein	822
22		
23		
24		
25		

00537

INDEX TO EXHIBITS

	EXHIBIT:	OFFERED:	ADMITTED:
1			
2			
3	EXHIBIT:	OFFERED:	ADMITTED:
4	Exhibit C-29	Re-marked as C-249	845
5	Exhibit 89	841	842
6	Exhibits 114 through 119	840	840
7	Exhibit T-176	539	539
8	Exhibit 177	847	847
9	Exhibit 178	594	594
10	Exhibit T-201	677	677
11	Exhibit 202	677	677
12	Exhibits 203 through 227	830	835
13	Exhibits 229 through 235	830	835
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

00538

1 JUDGE CAILLE: Let's go on the record. We
2 are here for the third day of the evidentiary
3 hearings in the MCI-Sprint merger, which is docket
4 UT-991991. All the same parties are here, so I'm not
5 going to ask for appearances. At this time, I would
6 like to swear in Ms. McMahon.

7 Whereupon,

8 SALLY McMAHON,
9 having been first duly sworn, was called as a witness
10 herein and was examined and testified as follows:

11 JUDGE CAILLE: Thank you.

12 D I R E C T E X A M I N A T I O N

13 BY MS. HOPFENBECK:

14 Q. Before we begin, Ms. McMahon, I'd like to
15 make sure that you have before you the rebuttal
16 testimony that you filed, that was filed on April
17 21st on behalf of WorldCom, as well as the Exhibit
18 Notebook 12?

19 A. I have it.

20 Q. Okay. Ms. McMahon, can you state your full
21 name for the record, please?

22 A. Sally McMahon.

23 Q. And where do you work?

24 A. 701 12th Street, Arlington, Virginia, for
25 WorldCom.

00539

1 Q. What's your position?

2 A. Vice President, Consumer Affairs and
3 Quality.

4 Q. Ms. McMahon, have you ever had the pleasure
5 of testifying in a proceeding such as this?

6 A. I have not. This is my first time.

7 Q. Okay. Did you cause to be filed in this
8 proceeding a document that's been pre-marked for
9 identification as T-176, entitled Rebuttal Testimony
10 of Sally McMahon?

11 A. Yes, I did.

12 Q. Are there any corrections that need to be
13 made to that document?

14 A. No.

15 Q. If I were to ask you the questions that are
16 contained in the rebuttal testimony today, would your
17 answers be the same?

18 A. They would.

19 MS. HOPFENBECK: I'll move the admission of
20 T-176.

21 JUDGE CAILLE: Is there any objection?

22 MR. CROMWELL: No objection.

23 MR. THOMPSON: No objection.

24 MS. ENDEJAN: No objection.

25 JUDGE CAILLE: Then T-176 is admitted into

00540

1 the record.

2 MS. HOPFENBECK: Ms. McMahon is available
3 for cross-examination.

4 JUDGE CAILLE: Excuse me. We have listed
5 Exhibit -- oh, that's a Public Counsel cross exhibit.
6 I'm sorry, excuse me. Mr. Thompson, would you like
7 to begin?

8 MR. THOMPSON: Yes.

9 C R O S S - E X A M I N A T I O N

10 BY MR. THOMPSON:

11 Q. Good morning, Ms. McMahon.

12 A. Good morning.

13 Q. I'm Jonathan Thompson, I'm an attorney for
14 the Staff here. I want to start out talking with you
15 a little bit about pricing issues. At page four of
16 your testimony, you stated that MCI WorldCom was a
17 price leader offering some of the most competitive
18 rates in the industry.

19 Can you identify a residential calling plan
20 that WorldCom has offered in Washington State that
21 would support your assertion here that MCI is a price
22 leader?

23 A. I would offer up Five-Cent Sundays. I
24 think we began that in 1997. It's a feature on many
25 of our calling plans. I'd certainly look at that as

00541

1 being a price leader.

2 Q. Were there any companies that you would say
3 followed suit with that price change on the part of
4 MCI?

5 A. Different companies have tried to take, I
6 would say, different price points in the market. I
7 believe that we own the five-cent message, have had
8 that, since I say, '97. It's a feature on many of
9 our calling plans. It's not a plan in and of itself.

10 Q. Okay. In '97, was that offering made while
11 the company was MCI WorldCom or just MCI at that
12 point?

13 A. Hmm. You're going to test my memory as to
14 when different events occurred. I believe we were
15 MCI, but I'm -- because I think the merger was in
16 '98, if that's what you're asking me.

17 Q. Yeah, I'm just trying to figure out the
18 offering.

19 A. So it was pre.

20 Q. Where it was in time in relation to --

21 A. It would appear to be pre, but I haven't
22 examined that, but pre.

23 Q. Thanks. WorldCom's pricing plans have
24 different rates for in-state interLATA and intraLATA;
25 correct?

00542

1 A. Correct.

2 Q. And can you explain to us -- this came up
3 yesterday. I'm wondering if you can explain to us
4 why WorldCom has chosen to differentiate its prices
5 that way?

6 A. Sure. I believe Washington went what we
7 call two-PIC, meaning that equal access occurred for
8 toll, or I think you call it in-LATA. Just so we get
9 terminology, I will use the term toll to mean within
10 the LATA and in-state LD to mean LATA-to-LATA. So if
11 I use different terminology, I want to make sure that
12 we're clear.

13 But this state went two-PIC in 1998. It
14 was our first opportunity to compete in that market.
15 US West has the lion's share -- at that point,
16 probably all of that market. I think they continue
17 to have a greater than 60 percent share of that
18 market. We've priced that way --

19 CHAIRWOMAN SHOWALTER: Excuse me, which
20 market are you now talking about?

21 THE WITNESS: The toll.

22 CHAIRWOMAN SHOWALTER: Just the toll?

23 THE WITNESS: The toll piece. So taking
24 just that --

25 Q. What we call intraLATA?

00543

1 A. What you call intra, and I'm going to try
2 to revise my terminology. On the intraLATA market,
3 they have a greater than 60-percent share. We have
4 priced the way we have to try to take share in the
5 intraLATA market and have not been modifying the
6 price on the in-state LD pricing. So if you look on
7 our most competitive, our price-leading plan, you're
8 looking at a price differential of 11 cents for the
9 in-state LD, and eight cents for the toll market.

10 So it's because of the lack of competition
11 that previously existed in that market and our
12 attempt to take share in that portion of the market,
13 the effective rate between the two is about a
14 nine-cent minute.

15 Q. I see. So when you average the volume of
16 calling that goes interLATA versus intraLATA --

17 A. Sure.

18 Q. -- you end up -- the company ends up -- in
19 other words, the company could charge nine cents
20 across the board and obtain the same revenue?

21 A. The company could, as the effective rate.
22 One of the things that we've talked about doing with
23 this Commission, because we're aware of concerns, in
24 conversations that I've had with the Chairwoman about
25 having flat rate pricing in this state, is that that

00544

1 would be an option.

2 We haven't gone in that direction because
3 we believe the way we're pricing is actually good for
4 consumers. Our traffic mix is about 60 percent on
5 the toll, the in-LATA, 40 percent on the interLATA,
6 so more customers are advantaged with the way we're
7 pricing today.

8 Q. Okay. Do you know if the eight cents
9 that's charged for intraLATA is -- do you have any
10 sense that that's above or below cost?

11 A. Well, the cost on in-state long -- access
12 here is, I'm told, in the seven and a half-cent
13 range. It's at least twice as much as what we're
14 paying for state-to-state access. If you put, you
15 know -- I don't allocate our cost by that portion of
16 the product, if you will, so all I can tell you is
17 the access rate is twice as much as what we're paying
18 state-to-state.

19 Also, if you look at what US West is
20 charging on that product, I think they're at 16 and
21 10. I can refer to my notes, but I think that's
22 where they are.

23 Q. Okay. Well, does AT&T charge a monthly fee
24 for the program you're referring to?

25 MS. HOPFENBECK: Could I ask for

00545

1 clarification? Mr. Thompson referred to AT&T. I
2 think he may have wanted to ask about MCI.

3 Q. No, I think the witness referred to --

4 MS. HOPFENBECK: Oh, sorry.

5 MR. THOMPSON: -- AT&T?

6 MS. HOPFENBECK: I think her response was
7 -- she had just referenced US West.

8 Q. Oh, I'm sorry, excuse me. US West. Okay,
9 never mind. I withdraw the question, then. Okay.
10 I'd like to look now at -- oh, I guess one more
11 question on the topic of pricing. WorldCom is not
12 currently offering an in-state plan like Sprint's
13 Nickel Nights, that has a level cost between
14 intraLATA and interLATA; correct?

15 Actually, I misstated that. I guess what
16 we're looking for is there's no current plan offered
17 by WorldCom that would enable a consumer to get the
18 same rate for in-state and out-of-state; correct?

19 A. We do not currently offer that plan, but
20 again, as we look toward how pricing may evolve in
21 this market, one of the things that we had talked
22 about and would be willing to have further
23 conversations about would be the offering of a plan
24 where a customer, for a fee, could essentially
25 obtain, then, the same interstate rate as intrastate

00546

1 pricing. So in effect, you'd have a higher fee than
2 what we pay today, and then you'd have the exact same
3 pricing.

4 Q. Right, okay.

5 A. I think there's really two different
6 options on how to move forward in that area.

7 Q. And that's under consideration in the
8 company now?

9 A. It's a direction, again, in discussions
10 with this Commission, that we could move in.

11 Q. Okay. On page six of your testimony, you
12 made -- actually, at line 18, you made the statement
13 that industry reporting shows that over 60 percent of
14 MCI --

15 A. I have to find it. Hold on.

16 Q. Oh, I'm sorry.

17 A. Mine isn't numbered in the same way. Page
18 six?

19 Q. Oh, yeah, you have different pagination,
20 don't you?

21 A. Most likely.

22 CHAIRWOMAN SHOWALTER: Maybe you could
23 point her to the questions.

24 Q. Following the question, How are MCI
25 WorldCom customers responding to these changes.

00547

1 MS. KIDDOO: For Ms. McMahon's benefit,
2 that's the top of page eight of our version.

3 THE WITNESS: Thank you. I'm with you.

4 Q. Okay. In the second sentence of your
5 answer to that question, you state, Industry
6 reporting shows that over 60 percent of MCI WorldCom
7 customers state that price is their reason for
8 changing carriers; correct?

9 A. Correct.

10 Q. Could I have you take a look at Exhibit
11 C-179, please? Have you found that --

12 A. I did.

13 Q. -- exhibit, Ms. McMahon?

14 A. Yes.

15 Q. This represents, does it not, the company's
16 response to Staff's data request where we asked you
17 to provide all data and reports for which, basically,
18 that assertion that I just read was drawn. I take it
19 your statement that reporting shows that over 60
20 percent of MCI WorldCom customers state that price is
21 their reason for changing carriers was based on the
22 company's internal analysis of a Yankee Group 1999
23 survey?

24 JUDGE CAILLE: Excuse me. Is this a
25 confidential exhibit? It is, isn't it?

00548

1 MR. THOMPSON: It is.

2 JUDGE CAILLE: I'm just worried about
3 actually stating numbers in the --

4 MR. THOMPSON: I'm sorry, I was just --

5 JUDGE CAILLE: I understand. You were just
6 repeating what was in the testimony. Okay.

7 MR. THOMPSON: Yeah, and I don't intend to
8 get into numbers here, just matters of methodology.

9 Q. Does that correctly state what's been
10 produced here?

11 A. Yes.

12 Q. Okay. And turning to the second page of
13 that data request response, in the first paragraph
14 following the kind of bullet points there, it says,
15 The company limited its --

16 MS. HOPFENBECK: I actually think that --
17 now I think you're reading from a confidential
18 document, and it seems that we should probably go
19 into a confidential session. Let's just have a
20 moment.

21 (Discussion off the record.)

22 MS. HOPFENBECK: We've conferred, and we
23 think if we stay away from the numbers, everything --
24 you can read anything else into the record.

25 MR. THOMPSON: Okay.

00549

1 Q. Anyway, the first sentence following the
2 bullet points on the second page states, in part,
3 that the company limited its analysis of the data to
4 only those survey respondents who also cited in the
5 same survey that they had switched long distance
6 companies at least one time in the last year;
7 correct?

8 A. That's what it says.

9 Q. Okay. So this doesn't represent a random
10 sampling of MCI customers; correct?

11 A. If you look back to the previous page, I
12 think Yankee is, without knowing their exact
13 methodology, doing a fairly broad survey, and the
14 second page is telling you that our marketing
15 research department refines the analysis to try to
16 get to more specific points that we use then for
17 marketing intelligence.

18 Q. Right. But the 60 percent number that you
19 referred to in your testimony, does that represent a
20 number that was derived because of the company's
21 refinement of Yankee's -- Yankee Group's survey
22 numbers?

23 A. That's my understanding, yes.

24 Q. Okay. Would you agree that, by narrowing
25 it to customers that have switched long distance

00550

1 companies at least one time in the last year
2 increases the chances of these people being more
3 price-sensitive than most customers? If you need me
4 to clarify the question --

5 A. No, I understand your question. I'm not
6 sure that I know that it does or it doesn't do that,
7 not being that type of statistician or analyst. I
8 can tell you that the people who are doing the
9 analysis are trying to understand the switching
10 behavior of our customers, and their intent is to try
11 to find out what makes a customer leave or select
12 another carrier. So they're doing that, trying to
13 give us the best intelligence that they can, so --
14 and their intent is to be directive, not to be
15 selective.

16 Q. Right.

17 A. But I can't tell you the chance that that
18 methodology increases or decreases the propensity for
19 that pricing number to be high or low. I can't tell
20 you that.

21 Q. But they seem to have focused in on a
22 particular group of MCI customers, correct, rather
23 than apparently all MCI customers?

24 A. Yes, because they're trying to determine
25 the role it plays in switching, as it says here, so

00551

1 they're looking at people who are switchers.

2 Q. Right, okay. Let's take a look, if you
3 would, please, at page eight of your testimony.

4 MS. HOPFENBECK: Mr. Thompson, can you
5 identify the question?

6 MR. THOMPSON: Oh, yeah, I apologize.
7 Let's see.

8 THE WITNESS: Would that be 10?

9 Q. The question is, How does MCI WorldCom's
10 advertising and telemarketing benefit most customers.

11 A. Okay.

12 Q. And I'm interested in the passage that
13 starts in that answer, the third sentence in -- or,
14 rather, the fourth sentence in, I guess, it starts,
15 Advertising makes the consumer aware. Could you read
16 from that point to the end of the paragraph, please?

17 A. Advertising makes the consumer aware of MCI
18 WorldCom and of the fact that competitively-priced
19 calling plans are available.

20 JUDGE CAILLE: You need to just read a
21 little more slowly.

22 THE WITNESS: Advertising makes the
23 consumer aware of MCI WorldCom and of the fact that
24 competitively-priced calling plan options are
25 available. The next step involves the efforts of our

00552

1 sales force to reach out to prospective customers to
2 explain the details of the calling plans. Do you
3 want me to keep going?

4 Q. Yeah, please, just to the --

5 A. The efforts of advertising and
6 telemarketing effectively communicate valuable
7 proposals to Washington consumers. About 70 percent
8 of MCI WorldCom's sales are made via telemarketing.

9 Q. Thanks. Would you agree that advertising
10 and telemarketing help establish brand name
11 recognition for the company?

12 A. Yes.

13 Q. And you would agree, I imagine, that AT&T
14 and Sprint also have broad advertising and
15 telemarketing plans that help establish their brand
16 names?

17 A. At a different mix level, but yes, they
18 certainly use both at different mix levels than our
19 company does.

20 Q. How do those mixes differ?

21 A. WorldCom has more outreach via
22 telemarketing than the other companies.

23 Q. Would you also agree that a company that,
24 for whatever reason, doesn't advertise widely or
25 telemarket widely may be less likely to capture a

00553

1 large number of customers?

2 A. I think if you look backwards in time at
3 this industry, you could draw that conclusion. I
4 think in today's market and going forward in this
5 industry, that conclusion's not correct.

6 I think we can use AOL as an example of
7 that today. This market is changing so rapidly, Dr.
8 Kelley referred to that yesterday, but now, because
9 of the access that's -- or capacity, I think is the
10 term people have been using in the hearing, is so
11 widely available and you have so many new competitors
12 that you no longer have to be a long distance company
13 and add on other services, like we do with our
14 partnerships. In fact, I think you're going to see
15 that invert. What you'll now see is new competitors,
16 like AOL, entering the market with their product,
17 Talk.Com. They have over a million subscribers and
18 they're adding long distance onto other existing
19 products.

20 So when you see a new entrant in this
21 market today, one of the most valuable assets they
22 will bring to the table, if not the most valuable
23 asset, will be an existing customer base. And
24 through that existing customers base, they will
25 market long distance service.

00554

1 Priceline.com is much the same type of
2 thing, not as clear as what AOL is doing, but AOL is
3 such a great example of this. Their customer base is
4 captive. It completely changes the financial
5 dynamics of this market, that existing distribution,
6 customer service, payment channels, and all they
7 simply need to do is add on long distance. And
8 therefore, advertising is not necessary for them.

9 Q. Well, okay. I guess you're offering an
10 example of AOL as a firm for whom advertising may be
11 unnecessary, but are you aware of what sort of
12 expenditures AOL makes on advertising? I assume it
13 does some advertising.

14 A. Advertising to a captive base. They're not
15 -- they don't have to do mass market advertising,
16 because they're trying to proposition an existing
17 base of customers and using long distance as an
18 add-on service, rather than long distance as the pull
19 service. It's a completely different marketing
20 proposition than what you're used to seeing from a
21 traditional IXC.

22 Q. Okay. So they're essentially, you would
23 argue, taking advantage of an asset that they've been
24 able to build up by serving customers in a different
25 market, and then sort of using that as leverage to

00555

1 enter into the long distance market; correct?

2 A. I'm not sure I would use the same terms.

3 I'm saying they have an existing customer

4 relationship, they have existing billing, they have

5 existing distribution channels, and long distance is

6 simply another product that they layer onto that

7 existing business process.

8 Q. You're not suggesting that AOL is an

9 example of a company that doesn't have brand

10 recognition?

11 A. I don't think I said that. I said their

12 company doesn't need mass market advertising to sell

13 long distance.

14 Q. Okay. Are you aware -- you mentioned AOL.

15 Are they currently competing in long distance

16 markets?

17 A. They have over a million and a half

18 customers.

19 Q. On their Internet service?

20 A. On long distance.

21 Q. Are you talking about voice over IP?

22 A. I'm talking -- no. They also have a voice

23 over IP product I'd be glad to talk about, but I

24 figured we'll talk about that on Internet. They have

25 substantial customers on that, as well.

00556

1 Q. Just to clarify the number, it's Talk.com
2 that you're --

3 A. Talk.com, 1.5 million.

4 Q. In the country?

5 A. In the country.

6 Q. I need to go to the subject that I was
7 asking Dr. Kelley about yesterday, that I think we
8 agreed to --

9 A. Lose this?

10 Q. -- defer to you. Yeah, we're done with
11 that one. For this purpose, I want to take a look at
12 Exhibit C-110, and that would have been an exhibit
13 that went with Dr. Kelley's testimony.

14 MS. HOPFENBECK: I'd like to make a
15 suggestion, that perhaps Mr. Thompson -- if Mr.
16 Thompson could identify the rest of the exhibits that
17 he intends to use, we could just make sure that the
18 witness has all the exhibits he intends to use, and
19 we could then -- I apologize for having to get up and
20 do this, but we didn't know that he was going to use
21 these exhibits for this witness.

22 MR. THOMPSON: Well, I really, frankly,
23 don't know which exhibits I'm going to use.

24 MS. HOPFENBECK: Okay.

25 MR. THOMPSON: I just have to see how the

00557

1 discussion goes.

2 MS. HOPFENBECK: Okay.

3 CHAIRWOMAN SHOWALTER: It takes us awhile
4 to find them, anyway.

5 MS. HOPFENBECK: Okay, thanks.

6 MR. THOMPSON: Again, this is a
7 confidential document, so I don't know if there would
8 be an objection to discussing generally what it is
9 and what it is attempting to do on the record?

10 MS. HOPFENBECK: I think the purpose of the
11 document can be discussed in its, you know, general
12 subject matter. It's the conclusions that are drawn
13 in here that are confidential.

14 Q. Okay. I'm told, Ms. McMahon, that you have
15 some -- oh, I'm sorry. Actually, I believe, yeah,
16 the petitioners have made some cleaner copies of
17 this, so it might assist us in --

18 MS. KIDDOO: I regret to say that I just
19 looked at this now. They're not stapled. Thank you,
20 Kinko's.

21 CHAIRWOMAN SHOWALTER: They go into
22 notebooks more easily that way.

23 MS. KIDDOO: Well, they're not
24 hole-punched, either, but I have the six copies,
25 John, that you asked for.

00558

1 JUDGE CAILLE: Off the record.
2 (Discussion off the record.)
3 JUDGE CAILLE: Let's go back on the record.
4 Q. Okay. Could I ask you to please turn to
5 page -- well, first of all, let's talk about what
6 this document is. I'm told you have some familiarity
7 with what this is, this document?
8 A. I do.
9 Q. Okay. Could you tell us?
10 A. What is your question?
11 Q. What the -- first of all, who the author is
12 and what the intent of the document was?
13 A. The author is Wayne Huyard, and he's the
14 President of Mass Markets. And the intent is to talk
15 about the changing dynamic in the residential
16 telecommunications business.
17 Q. Okay. Could you please turn to page 10 of
18 the document? And maybe it would be best if you
19 explained what is being depicted here with these two
20 pie charts, please.
21 A. Sure.
22 MS. HOPFENBECK: I want to just interject
23 to caution the witness to describe it generically,
24 without referring to the percentages.
25 THE WITNESS: The chart on the left tells

00559

1 you, when we get a new installed, who was the
2 previous carrier. And the chart on the right tells
3 you, when we have a disconnect, where that customer's
4 going to.

5 Q. Okay. So based on this, which -- well, not
6 based on this. Do you have any idea which emerging
7 carrier, or I guess in the category of others, is the
8 most common recipient of MCI WorldCom customers?

9 A. You're asking, just to make sure I
10 understand your question, when someone leaves us?

11 Q. Right.

12 A. And they go into the Other category, who
13 they go to?

14 Q. Right.

15 A. I haven't looked at that data.

16 Q. Okay. Based on this information that's
17 presented here, if the merger goes through, would you
18 agree that customers would no longer be able to
19 change to what is currently their second most popular
20 choice because of the combination of Sprint and
21 WorldCom?

22 A. I think as you look into the market and you
23 think about the level of competition post this
24 merger, that what you will see is that, for all the
25 factors that have been talked through in this

00560

1 hearing, you will see new competitors quickly step
2 into place and replace Sprint. The emerging carriers
3 will grow. It's the fastest growing segment of the
4 market. I think the FCC report is now showing them
5 at almost 21 percent share of the IXC market.

6 So I would imagine that the second choice
7 will be as big as what you're seeing here very
8 quickly, whether that's Excel or Qwest or who that
9 carrier is, or AOL or someone else, but it will be
10 quickly supplanted.

11 Q. What's -- you mentioned Excel. Excel, I
12 understand, has a pricing plan in place. Do you know
13 anything about the details of that? The only thing I
14 know on Excel is what I've seen on their -- I think
15 it's three cents a minute, \$30 min. Minimums.
16 Sorry, jargon.

17 Q. Do you happen to know what the in-state
18 rate is for Excel?

19 A. I don't.

20 Q. Okay. Would it surprise you to know that
21 it's 15 cents?

22 A. I don't know their rate, so I can't say I'd
23 be surprised.

24 Q. Okay. Looking back at your -- I guess I'm
25 done for the moment with that exhibit, but I do want

00561

1 to come back to it for a different point. But I want
2 to look at another passage in your testimony, and
3 it's on my page nine.

4 MS. KIDDOO: Question?

5 Q. And for everybody, I guess, but you, it
6 would be lines 11 through 14. It follows immediately
7 after the question, Please explain how the pricing
8 demands of residential customers are addressed by MCI
9 WorldCom's calling plans?

10 A. Mm-hmm.

11 Q. Could you read, starting with the word
12 "nationally", down -- those two sentences?

13 A. Nationally, more than 80 percent of MCI
14 WorldCom customers are on long distance calling plans
15 that provide a more cost-effective rate per minute
16 than basic dial one long distance residential
17 service. By comparison, I estimate that only 50
18 percent of AT&T's residential customers are on
19 calling plans, as opposed to standard rates.

20 Q. Thanks. Could you explain a little bit
21 about what you mean by basic and dial one?

22 A. Sure. It's our base rate without a plan.

23 Q. Is it -- how is it structured?

24 A. It just changed. MCI announced in May that
25 we no longer have a minimum associated with our dial

00562

1 one, so it is time and distance-sensitive, based on a
2 per minute rate.

3 Q. And --

4 A. And it has Five-Cent Sundays. It has a
5 special Sunday pricing.

6 Q. Okay. So you're making a comparison with
7 AT&T. AT&T has a similar --

8 A. Sure.

9 Q. Okay. How's that?

10 A. I don't know their rates. I can talk to
11 MCI rates. I have a hard time talking to other
12 carriers' rates.

13 Q. Okay. What do you think explains the
14 difference between MCI's customers and AT&T's
15 customers, as you've you drawn it here?

16 A. The MCI -- AT&T has been in business in
17 long distance for a lot longer than WorldCom. Our
18 customer base is competitively won and is more likely
19 to switch. They're often more involved -- what we
20 call involved in the category, and as a result,
21 actively work themselves onto plans, whereas the AT&T
22 customer has many people in it who are not as
23 involved in the category and who don't actively work
24 themselves onto plans. And therefore, they have a
25 smaller percent of customers on plan.

00563

1 Nor do I know that they take as many
2 actions as we do to move customers to plans. We
3 found that being on a plan is good for a customer.
4 It increases their propensity to stay with the
5 company.

6 Q. Okay. I forgot the term you used, but in
7 other words, you're saying that MCI's customers tend
8 to be -- or have a larger share of people who are
9 sensitive to price. The price issue is of greater
10 importance to them?

11 A. The term I used was involved in the
12 category.

13 Q. Right, okay. Is that correct, though?
14 Does that summarize -- did I state that --

15 A. Involved in the category can mean different
16 things, too. Some customers, it's definitely price.
17 I think we talked about price being a significant
18 mover in this market. To other customers, it's
19 airline miles; to others, it's Blockbuster
20 certificates. Different customers have different
21 values that work for them, and we try to offer
22 something for most people that they can find real
23 value in our company.

24 Q. Is it possible that one way of explaining
25 this difference is by the volume of use that

00564

1 customers may have? In other words, if a customer
2 uses more minutes, they're more likely to be
3 interested in a plan or they may just actually save
4 money if they're on a plan, whereas if they consume
5 less minutes of long distance, it may be cheaper for
6 them to be on basic or dial one?

7 A. Certainly how much usage a customer has
8 impacts their involvement or their desire for a lower
9 price. We try to offer different sets of calling
10 plans that are attractive to different areas of the
11 market. We just talked about taking the minimum off
12 of the dial one. At the same time, we offered a \$3
13 minimum, five-cent Sunday plan, trying to create a
14 plan for a user that that may be attractive to. We
15 try different pricing combinations, on-peak, off-peak
16 Sundays, et cetera, trying to find something for
17 everyone and to be as attractive to as broad array of
18 the market as possible.

19 Q. Okay. But just as a general principle, is
20 it possible that -- well, do the plans tend to have a
21 minimum fee or a monthly fee associated with them
22 that the basic and dial one don't have?

23 A. The basic dial one does not have a minimum
24 or a fee associated with it. That's a change, I
25 said, we just went through in May, this month. The

00565

1 other plans have a fee or they have a minimum
2 associated with them.

3 Q. Okay. I want to look again at Exhibit
4 C-110, if you would, please. And I want to look at
5 the page that precedes the one we looked at a little
6 earlier. Page nine is what I want to look at. Can
7 you explain what's depicted with the pie charts on
8 page nine?

9 A. Sure. The pie on the left is the average
10 tenure of the WorldCom base, and the pie on the right
11 is the average tenure -- or it's not really the
12 average, is it? It's the tenure mix of the AT&T
13 base.

14 Q. So in other words, you made categories of
15 how long customers have been with a particular
16 carrier?

17 A. Yes.

18 Q. And does this go to the point you were just
19 discussing, then, the differences that exist between
20 WorldCom customers and AT&T customers?

21 A. It does.

22 Q. Okay. Where do you believe that Sprint's
23 customers fall in the difference you've drawn between
24 AT&T and WorldCom?

25 A. I'm speculating, but I'd say somewhere in

00566

1 the middle.

2 Q. No closer to one than the other?

3 A. I'd be speculating. Just somewhere in the
4 middle. I can't say -- I'm guessing it would fall
5 closer -- it's probably in the middle and falling a
6 little bit toward the WorldCom side, because they're
7 not going to have this part of the base, the
8 never-switchers, but their switching behavior is not
9 as strong as the MCI WorldCom switching behavior.

10 Q. And what do you base that statement on?

11 A. Market knowledge, having worked in this
12 business a long time.

13 Q. So if we looked at a similar pie chart for
14 Sprint, do you think that there would be -- that
15 there would be a longer tenure, a longer average
16 tenure, say, among Sprint customers than among
17 WorldCom customers?

18 A. Yes.

19 Q. Do you think it would be substantially
20 longer?

21 A. I think I just answered that. It would be
22 somewhere in the middle, leaning toward the WorldCom
23 side. Without the statistics here in front of me,
24 you know, it's hard to say --

25 Q. Okay, fair enough.

00567

1 A. -- that's where I think it would fall.

2 Q. Okay. Would you agree that MCI and Sprint
3 tend to compete more with each other than with AT&T
4 for the aggressive, low-cost seeking customers that
5 you talked about?

6 A. No. No, because if you go back to the
7 previous chart that we looked at.

8 Q. Right.

9 A. You can see where our customers are coming
10 from. What page is that, 10?

11 Q. Right.

12 A. This is the install from WorldCom's coming
13 from AT&T. Seventy percent of the installs are
14 coming from Sprint. So we have to be focused on the
15 lion in the market. AT&T is over 60 percent share of
16 this market and we're focused on them and taking
17 share, but in terms of setting a price point and
18 knowing where we're going to compete in the market,
19 we're looking at creating a pricing strategy, a
20 marketing proposition that fuels what we call a
21 telemarketing machine.

22 Our company, I think we just talked about a
23 little bit ago, is 70 percent telemarketing-driven
24 for our installs. So the way we decide what to put
25 into the market is not so much what the competitor is

00568

1 doing; it's how you drive productivity efficiency in
2 a telemarketing sales organization.

3 We run our telemarketing at max hours.

4 Therefore, the only way that you can grow is by
5 managing the productivity and the efficiency of that
6 channel. So as that efficiency of that channel
7 wanes, then we drive greater or new marketing
8 messaging into that channel for distribution. So I
9 wouldn't -- now, you can see AT&T drives the
10 installs. That's where they're coming from. That's
11 where the customer is.

12 Q. I see. Because the lion's share of --

13 A. That's where they are.

14 Q. Okay. When you said -- this is unrelated
15 to what we're talking about, I guess, but it
16 interests me. You said something about that you're
17 using telemarketing at max hours. What does that
18 refer to?

19 A. It means that there's only so much data
20 available. And we can only run so many hours of
21 telemarketing. Therefore, if you want to grow your
22 business, if you want to have more and more and more
23 sales, which most businesses want, then you do that
24 by making your channel -- you have two options;
25 right? You make your channel bigger or you make your

00569

1 channel better. We don't have many options to make
2 it a lot bigger, so we're working on making it more
3 efficient.

4 Q. The channel being --

5 A. Telemarketing.

6 Q. -- the way of reaching customers. And
7 different channels -- what, another channel would be
8 advertising, I take it?

9 A. Advertising is a small channel for us.

10 Q. Okay. But I want to return to the point
11 you were making about where the new customers come
12 from. I imagine we would -- if we looked at market
13 share, basically, if we looked at market share, okay,
14 and we extracted MCI WorldCom from that market share,
15 all things being equal, the company, I take it, would
16 -- should draw an equal market share from each of its
17 competitors, all things being equal?

18 A. I don't follow your question.

19 Q. Well, let me ask you this. Are you aware
20 at all of what Sprint's approximate market share is
21 nationally?

22 A. The FCC reported data that I've seen shows
23 it at six. That's IXC market share without a LEC.
24 Put the LEC into that, and that market share would
25 drop. So it depends on how you define the market.

00570

1 Interesting you can define the market without the
2 LEC, isn't it?

3 Q. Okay. Well, I guess what I'm getting at is
4 there's a percentage on the pie chart on the left on
5 page 10 for the number of customers that are coming
6 from Sprint. Would you say that it exceeds Sprint's
7 share of customers from whom MCI could obtain
8 customers or is it about the same as the market
9 share?

10 A. Market for Sprint, if you don't put the LEC
11 in, is six. Put the LEC in, because this would
12 include the toll, because you see the LEC, and that
13 market share would drop. So you know, I think the
14 FCC doesn't report the data that way, but let's say
15 it falls to, like, four or something like that. And
16 this number's at seven, so it's bigger.

17 Q. Okay, thanks. I want to take a look at
18 another part of your testimony. And it's on page 10
19 of my copy, and it's following the question, Please
20 describe MCI WorldCom's policies on customer service
21 and quality?

22 A. Okay.

23 Q. I'm looking at the second sentence in
24 there, it's on page seven of my copy. It starts, The
25 company places high standards. Well, I'll just read

00571

1 it. It says, The company places high standards in
2 its policies of providing valuable customer service
3 and excellent quality. While we have recently
4 enhanced our program, I want to make it clear that I
5 believe that the company has always offered good
6 quality plans and services.

7 Could I have you take a look, please, at
8 Exhibit 178? I'm going to have to -- this is a
9 Staff-prepared exhibit that attempts to depict some
10 information about the number of escalations, that is,
11 complaints about WorldCom that were escalated to the
12 Commission level over time.

13 And you've had a chance to look at it in
14 the materials that were provided, but I'm going to
15 have to ask you to accept it, subject to check. But
16 what I want to ask is if we look down at the total
17 line on the first page, which deals with MCI WorldCom
18 complaints, we see the total number of complaints
19 increasing from 105 in 1997 to 432 in 1999. I'm
20 going to ask you what your explanation for that
21 increase is, but I also want to ask -- I think you
22 said somewhere in your testimony that escalations to
23 state commissions represent about .03 percent of the
24 total complaints received by a company?

25 A. Correct.

00572

1 Q. Okay. So what we're looking at here, I
2 guess, is sort of, I guess, a pretty small group of
3 total number of complaints, but --

4 MS. HOPFENBECK: Excuse me. I actually
5 believe that misstates the witness' testimony,
6 because she was reading from her testimony at the
7 time, which says it's only .03 percent of total
8 customer installations.

9 MR. THOMPSON: Oh, I'm sorry.

10 MS. HOPFENBECK: Not total customer
11 complaints.

12 Q. I apologize.

13 A. Thank you.

14 Q. Okay. I had that wrong. In any case, the
15 only point I wanted to make was, I guess we're
16 looking for an explanation of why you think this
17 increase may have occurred between '97 and '99?

18 A. Part of -- I think there's two main things
19 going on. You had phenomenal growth in the customer
20 base during that time. Ninety-eight and '99 are
21 probably two of the highest growth years for consumer
22 mass markets that we had as a business unit, took
23 considerably more share than any of our competitors,
24 in fact, probably the largest grow in share in the
25 history of our mass markets organization.

00573

1 At the same time, there were some errors
2 made in customer service, problems in that
3 organization in '98 through '99, that I attribute to
4 management errors that have since been corrected. So
5 when you look at the recent trends and I look at my
6 numbers, which are a little bit different than what
7 you show here, for the first four months compared to
8 first four months, we're now seeing steady decline.
9 I look at nationwide agency complaint trends, five
10 out of last six months, the company showing a
11 decreasing trend. Look in Washington, the exact same
12 trend is there for WUTC complaints.

13 Q. I think you mentioned that this increase
14 between '97 and '99 might have been a result of
15 growth in mass markets; is that right?

16 A. I attributed it to -- you want me to say it
17 again?

18 Q. Yes, please.

19 A. I attributed it to dramatic growth in that
20 part of the market for mass markets growing at the
21 fastest rate that we had as a unit for two years, '98
22 and '99, coming off a bit of a trough year, if you
23 will, in '97. At the same time, there were some
24 strategic errors made by the customer service
25 management team in the '98 to the fall of the '99

00574

1 time frame that have since been corrected. With
2 those corrections, we're now seeing dramatic
3 improvements in the agency complaints, as well as in
4 the customer service responsiveness, results that we
5 look at in the business.

6 Q. Okay. Let's talk about, first, the growth
7 aspect. What would you attribute the growth to? Was
8 it just a growth in demand for long distance services
9 or was it something particular to the company?

10 A. Really starts with the launch of Five-Cent
11 Sundays, which I have talked about earlier, and a
12 continuing improvement of our plans, along with the
13 efficiency of the telemarketing channel.

14 Q. In other words, the telemarketing was
15 proving more productive of new customers?

16 A. Putting the right message in the market,
17 the right value proposition for the customers, and
18 then being able to effectively market that via
19 telemarketing.

20 Q. It appears that that growth also coincides
21 with the time of MCI's merger with WorldCom. Would
22 you attribute any of the growth to that merger?

23 A. No.

24 Q. Why not?

25 A. Because WorldCom didn't have a mass markets

00575

1 organization. So our part of the company, the mass
2 markets organization, was probably the most
3 merger-free part of the company.

4 Q. Okay. So, okay, WorldCom was not --

5 A. A very small mass markets organization.

6 Q. Okay.

7 A. Very small.

8 Q. You've already mentioned, I guess, the
9 comparison that we're trying to draw in this graphic
10 here between the first four months of 2000, this
11 year, and the first four months of 1999.

12 A. Yes.

13 Q. And I think you indicated that you had some
14 different numbers, but subject to check of our
15 numbers, I guess, would you concede that the number
16 of escalations from WorldCom customers for the first
17 four months of this year and last year are pretty
18 close?

19 A. Certainly the numbers on your chart, at 115
20 and 117, are almost the exact same number, but as I
21 said earlier, my numbers are different. Mine show a
22 reduction, I'd call it a significant reduction.

23 But most importantly, if you peel under
24 these numbers and you look at the month over month
25 trend, which I think is the most important thing for

00576

1 the Commission and the company to be looking at, is
2 we're seeing month over month improvements.

3 Q. So in other words, from, say, the last four
4 months of --

5 A. Well, I mentioned five out of six, I think.

6 Q. Okay. If, as you said, growth was one of
7 the causes of problems in the preceding period, can
8 you tell us what will stop -- what would prevent the
9 same thing, essentially, from happening again because
10 of the addition of Sprint's share of the market?

11 A. Sure, absolutely, because we're doing it
12 right now, because our growth trend is continuing.
13 We had a very successful first quarter of this year,
14 just announced market growth, I think at a time when
15 others are announcing other results.

16 What we're showing nationally at that time
17 when we're announcing this growth is decreasing
18 escalations and improving customer service trends.
19 We've done that through a whole series of
20 improvements that we've launched into our business in
21 the first quarter of this year, and we're very proud
22 of these improvements. Agencies that we've talked to
23 said they've not ever seen as comprehensive a set of
24 quality initiatives as what we've put into our
25 business.

00577

1 I can walk you through each of those. They
2 start with improvements to the telemarketing process,
3 they talk about controls on the TPB process, and then
4 empowerment into the customer service organization.
5 So we are effectively able to -- we have effectively
6 analyzed what drives customers to complain and are
7 using that information to continuously improve --
8 that's an overused phrase, but that's exactly what
9 we're doing -- improve our business to result in
10 fewer complaints at the customer service level and at
11 the agency level, and every indication we have is
12 that it works.

13 And we're doing that because it's smart
14 business and we're doing it because we recognize that
15 there were problems in '98 and in early '99 that
16 needed to be addressed in a much more systemic way
17 across our business. We look at -- I guess that's
18 kind of my job, in that we formed what I'm doing in
19 the latter part of '99, and it appears to be working.
20 And we are committed to continuing doing that,
21 analyzing what causes customers to complain.

22 It's everything to do with the proposal
23 I've put into my testimony about how we are more than
24 happy to continue working with this Commission to
25 constantly improve customer satisfaction. We intend

00578

1 to be a very large player in the consumer
2 telecommunications business and we know that, to do
3 that, we have to be very responsive to customers and
4 responsive to agencies, constantly improving the way
5 that we deliver satisfaction to customers.

6 Q. Okay.

7 A. I can walk you through all those
8 improvements if you want me to.

9 Q. I think they're set out in your testimony.

10 A. Mm-hmm.

11 Q. But I want to just look at, do a comparison
12 here of the numbers that apply to Sprint, which are
13 on the next page.

14 A. Sure.

15 Q. And we've tried to create a way of making a
16 kind of apples-to-apples comparison by taking the
17 total long distance revenues of both firms and coming
18 up with a number that represents the number of
19 complaints per \$10 million of long distance revenues
20 for the two firms.

21 How do you explain that the Commission
22 received 295 complaints concerning MCI in 1998,
23 representing basically 17 per \$10 million in revenue,
24 while the Commission received only 76 complaints
25 concerning Sprint, representing 17 per \$10 million in

00579

1 the long distance revenues? Excuse me, I think I
2 said MCI is 27 and Sprint is 17 per 10 million of
3 long distance revenue?

4 A. So you're asking me why is MCI running at
5 27 and why is Sprint running at 17 per \$10 million of
6 revenue?

7 Q. Correct.

8 A. It is a couple of issues. MCI has a lot
9 more acquisition going on in that period of time. It
10 was a growth period, as I said, coming off a trough
11 in '97, it had exceptional growth in the market. And
12 we're doing it through telemarketing, which is a very
13 active channel and may be causing more issues in the
14 market, which is exactly why we've put the type of
15 controls in place, improvements that we just
16 mentioned to try to bring that number back down. And
17 we have every intention that it will come down, and I
18 believe we're already seeing that.

19 That's one of the reasons, again, that I
20 suggest in the testimony that we could have this -- I
21 think I suggest quarterly -- excuse me, quarterly
22 meetings, monthly reporting, where we would be coming
23 to the Commission and sharing with you information on
24 what are the trends or the drivers of complaints.

25 And by having what I'd like to term as this

00580

1 open kimono type of meeting, what you, in fact, are
2 given is the information as to how we are then
3 improving the business so that you can tell us
4 whether or not you think we're on track or if there's
5 other issues that need to be addressed so that we can
6 be responsive to the Commission and to consumers.

7 Q. You said in your testimony, at page 15 in
8 my -- maybe you can just do this from memory. I hate
9 to go and find the line every time. You said, MCI
10 WorldCom would like to gain more best practices from
11 Sprint's customer service strengths. Do you recall
12 that?

13 A. Absolutely.

14 Q. Okay. What are Sprint's strengths that
15 you're referring to?

16 A. Well, not being able to work with them very
17 closely at this point, it's hard to know the
18 specifics. I will simply tell you that their
19 complaint rate is 17 and ours is 27, that they're
20 known in the market for having good customer service,
21 and I look forward to learning and understanding
22 things that they do and finding ways to apply it in
23 our business.

24 Q. Could I ask you why it is the company is
25 proposing the quarterly discussion sessions, as

00581

1 opposed to making specific commitments to getting the
2 level of complaints down to the level of Sprint?

3 A. Sure. I'm not opposed to talking about
4 both. When the Commission provides us complaints,
5 the Commission only has the information from one
6 side. You only know what the customer is saying.
7 And while that's critical to understanding complaint
8 drivers, it's still only half the story.

9 By providing the other side of the story,
10 what's going on in the company, why did this problem
11 occur, how many customers are impacted, what are we
12 going to do to fix it, and what should the Commission
13 be expecting, you can then see is the company doing
14 enough to fix this problem, is the company doing the
15 right things, and you can impact us in a way that I
16 think you want to, and two, have an understanding of
17 what customers are going to be seeing in this market.

18 In many ways, then, if you don't think it's
19 the right things, you have all the authority to ask
20 us to do more. So in that way, I think we're trying
21 to be very helpful to the Commission.

22 In terms of the cap, the FCC just put out
23 these brand new rules. I don't know if you all have
24 had the opportunity to read them, slamming recon
25 roles, they're long and they're complex. I see a

00582

1 smile here, so I know you have read part of them.
2 But in it, it clearly puts the state in the position
3 of adjudicating slam complaints and it clearly puts
4 the Commission in a place where you're going to be
5 getting complaints that you don't get today.
6 The ILECs, other IXCs, the FCC, every other
7 entity in the market is going to be sending
8 complaints to this Commission, should you choose to
9 participate, that you don't get today. So it's hard
10 for me to then say how that number for WUTC is going
11 to trend and change. If I had that crystal ball, I'd
12 be more than happy to set a cap, but I don't know how
13 to exclude it.
14 I thought maybe we could -- you know,
15 they'd be earmarked in some fashion, that they're
16 part of this new ruling. But in my reading,
17 understanding of the rules, that they won't be
18 earmarked and you won't be able to discern one from
19 another.
20 So how will your complaint trends change
21 here, what will be the impact on the state on how you
22 manage complaints? I don't know. I do know that
23 we're working hard on trying to figure out what these
24 rules mean and have some ideas on how we can work
25 with the states in developing web interfaces and

00583

1 processes to facilitate the easy process and
2 resolution of these for consumers.

3 Q. I don't know if you were around -- were you
4 around for Mr. Porter's testimony?

5 A. Bits and pieces.

6 Q. Okay. We had a bit of a discussion with
7 him about some of the promises or commitments that he
8 made on behalf of the company in his rebuttal
9 testimony.

10 A. Yes.

11 Q. And I'd like to -- he sort of deferred some
12 of that discussion to you, so I'd like to pick that
13 up now, so I'll be keying off his -- Mr. Porter's
14 rebuttal testimony at this point. I don't know if
15 you have the same pagination on this one.

16 A. I think I pulled the relevant pages, so
17 let's try.

18 Q. Okay. I want to talk about the cap on the
19 average effective in-state rate that is set out in, I
20 guess, number one.

21 A. Okay.

22 Q. Is it your understanding that on at least

23 --

24 JUDGE CAILLE: I'm sorry, excuse me, Mr.
25 Thompson. I am not with you. Can you tell me where

00584

1 we are?

2 MR. THOMPSON: Oh, I'm sorry. We're in
3 David Porter's rebuttal testimony, which I'm afraid I
4 don't have the exhibit number for it at my
5 fingertips.

6 JUDGE CAILLE: That would be T-4.

7 MR. THOMPSON: I apologize for that.

8 JUDGE CAILLE: And the page?

9 MR. THOMPSON: And the page is 13.

10 JUDGE CAILLE: Thank you.

11 Q. Okay, all right. Anyway, in number one,
12 Mr. Porter states, MCI WorldCom will agree that the
13 average effective in-state rate per minute charged by
14 WorldCom shall not increase from the time the merger
15 is closed to six months following merger closing. Is
16 it your understanding that on at least some plans,
17 WorldCom charges a monthly fee of 4.95 in Washington?

18 A. Yes, but this includes an allocated portion
19 of the monthly fees and minimums. The allocation
20 would be based upon the percent of traffic that is
21 also in-state. So the definition here on the
22 effective rate is billable revenue, and it includes
23 those mins and fees at an allocated proportion.

24 Q. If you could maybe elaborate on the details
25 of that a little bit, that would be helpful for us.

00585

1 A. I think you're asking what is average
2 effective rate and does it include minimums and fees?

3 Q. That's what I'm asking, yeah.

4 A. Okay. Average effective rate would be
5 billable revenues divided by total minutes in the
6 state. It would include an allocation of the fees
7 and mins, so if you look at -- let's take Everyday
8 Plus, with a 4.95 fee. It would have an allocation,
9 based upon the percent of traffic that is in-state,
10 of 4.95.

11 Q. Okay. And all of the in-state minutes are
12 included in that, as well, I take it?

13 A. This is on in-state pricing, is what we're
14 talking about. So the in-state pricing with an
15 allocation of the fees and the mins.

16 Q. Okay.

17 A. And it wouldn't increase those prices,
18 we're saying here, for six months. And I believe, as
19 was discussed yesterday, there's a willingness to
20 take that to a max of 18 months.

21 Q. A willingness to take it to 18 months?

22 A. That's what we discussed, I believe,
23 yesterday. I don't think I imagined it.

24 Q. Does WorldCom impose additional fees to
25 recover carrier access fees or universal service

00586

1 charges?

2 A. Yes.

3 Q. Okay.

4 A. That's not in the rate.

5 Q. That's not in the rate?

6 A. No, it's not part of the billable revenues.

7 Q. Okay.

8 A. The billable revenue has this mins and
9 fees allocation. It doesn't have PICC and USF.

10 Q. So would you agree that, as the
11 commitment's worded in Mr. Porter's testimony, it
12 would permit WorldCom to lower the permanent rates
13 in, say, Seattle and Spokane and raise them in other
14 parts of the state?

15 A. I don't think that's legal, is it? I mean,
16 what we have -- what we're saying -- I think someone
17 referenced yesterday that we have to charge the same
18 rates. I'm not sure that you're following what
19 you're saying. We're saying that whatever the rates
20 are, we're committing that we're not going to raise
21 them on that effective rate for 18 months. Very
22 straightforward. Very straightforward.

23 Q. Well, I take it you're indicating that
24 you're not going to raise the average, but isn't true
25 that you can make different allocations under the cap

00587

1 in terms of some rates versus raising some rates and
2 lowering others? I mean, isn't that a possibility?

3 A. Sure, it's a possibility. But the intent
4 here is very straightforward, to say that we're not
5 raising rates on the effective rates. Effective rate
6 on Everyday Plus on the two in-state rates that we
7 talked about, I think in your opening question, is
8 nine cents. Then we're saying we're not going to
9 raise that effective rate of nine cents. The
10 effective rate is nine.

11 Q. Okay. But that's not explicit in --

12 A. It's not?

13 Q. -- Mr. Porter's --

14 A. It's not?

15 Q. I'm just -- do you interpret it to be?

16 A. You can help us find a better way to write
17 it, maybe, but we think we're trying to be very
18 clear.

19 Q. So I take it you're committing on a
20 plan-by-plan basis, as opposed to an overall
21 corporate average?

22 A. Correct.

23 Q. Okay. Can you explain why the commitment
24 applies only to MCI WorldCom and not to other
25 companies, including Sprint Communications, that

00588

1 WorldCom would control after the merger, or was it
2 your intent that it should?

3 A. Never thought about it that way.

4 Q. Okay.

5 A. I mean, if we're post-merger, it seems like
6 it's all MCI WorldCom or WorldCom at that point. I'm
7 not sure what the product integration strategy will
8 be.

9 Q. So the same would apply to Sprint products,
10 as well, was your intention?

11 A. I can't say it's all my intention.

12 Q. Well, the company's intention? Certainly,
13 it's not your testimony, either, for that matter.

14 A. Seems to be I'm in the seat, though,
15 doesn't it? Sorry. The intent is for the merged
16 company to say that we will not raise prices in this
17 market for 18 months. Our intent is very clear. I
18 apologize if we struggle with the words. We will be
19 one company, we will not raise the prices in this
20 market on the in-state prices. We will have an
21 allocation of our fees and minimums into that price.

22 We welcome the opportunity to work with the
23 Commission on finding the language that best
24 expresses that. We're not trying to game anyone.

25 Q. Oh, I'm not suggesting that. I just want

00589

1 to clarify, for our sake, what exactly --

2 A. Right. I'm saying if there's a better way
3 to write it, help us find it.

4 Q. That's the process I'm trying to go through
5 with you right now.

6 A. Oh, but I'm not the only author, is the
7 problem.

8 Q. I heard you say a little earlier that the
9 company would propose 18 months, as opposed to the
10 six months that's indicated in Mr. Porter's
11 testimony. Can you tell us why the company would
12 pick that number?

13 A. In response to all the conversations that
14 have gone on about what's the likelihood of 271
15 application for US West and looking at this merger
16 taking to the end of this year, and then 18 months,
17 it seems a reasonable amount of time that you could
18 say that until the LECs have it. It seems to be the
19 concern in this market is the degree of competition
20 at that point, which is a reasonable time to look out
21 for US West, then we would not be -- you know, we're
22 saying till that market is that competitive, it seems
23 a logical point to pick.

24 Q. The next item I want to talk about is,
25 moving on from the cap issue, is number four on the

00590

1 list, on Mr. Porter's list?

2 A. Okay.

3 Q. Where it says MCI WorldCom will rebalance
4 its in-state long distance and local toll rates to
5 equalize interLATA and intraLATA rates. Is this
6 intended to be a one-time event or is WorldCom
7 committing never to charge different rates for inter
8 and intraLATA?

9 A. We could commit to 18 months on that, as
10 well. And what it simply says is you take the two
11 different rates that seem to be a concern within the
12 state and we would rebalance them to the effective
13 rate on each of the plans. So there would, then, for
14 any consumer in this state, only be two rates, their
15 out-of-state rate and their in-state rate.

16 Q. So -- and again, this is specific to the
17 plans, as opposed to kind of an overall corporate
18 average?

19 A. It would have to be on a plan, because the
20 rates are different on plans.

21 Q. Okay. I think we may have covered this
22 already, but we noted that on the plan we were
23 discussing, there's an 11-cent per-minute rate for
24 interLATA calls and eight-cent per-minute rate on
25 intraLATA calls. What would the price be once

00591

1 they're merged together?

2 A. Nine.

3 Q. Okay. Are there any customers of the two
4 companies today who are paying more than 11 cents
5 interLATA or eight cents intraLATA?

6 A. Sure. The rates vary by plan.

7 Q. Okay. Is WorldCom offering to charge those
8 customers nine cents, as well?

9 A. We would -- I believe the deal, as we just
10 talked about, would rebalance for each of the plans,
11 so the effective rate on each of those plans would be
12 balanced so that there would be one rate within the
13 state, and then you combine it with what we just
14 talked about a couple minutes ago. We're saying that
15 those rates cannot be increased for 18 months.

16 Q. So it wouldn't be nine cents for everybody;
17 it would just be the average?

18 A. Whatever plan they're on would be averaged.

19 Q. Okay. Do you imagine that there are any
20 customers of WorldCom who only make intraLATA calls,
21 intraLATA calls, and just don't have any in-state
22 interLATA calls?

23 A. I imagine that that combination could
24 exist, sure.

25 Q. And that they might be actually adversely

00592

1 affected by the averaging of the intraLATA and
2 interLATA rates?

3 A. I think I said earlier that our traffic mix
4 is 60 percent in-LATA and 40 percent cross-LATAs.
5 Therefore, there would be some customers who are
6 better off with our current pricing structure, and
7 that's been some of our reluctance to move to flat
8 in-state pricing.

9 Q. Okay. Let's take a look at number five on
10 the list now, please. It states that MCI WorldCom
11 will introduce a new long distance product under
12 which customers will be charged the same rates for
13 state-to-state and in-state long distance calls for
14 an additional monthly fee.

15 Is the idea that this plan would be
16 analogous to the Sprint Anywhere plan? In other
17 words, that there'd be an additional fee to obtain
18 the same in-state and out-of-state rates?

19 A. I can't speak to the Sprint plan, but for
20 us, we would be having an additional fee and the
21 customer would have the exact same rate out-of-state
22 as they have in-state, or in-state -- yeah,
23 out-of-state is probably a better way to word it. So
24 that customer, in effect, has one set of rates that
25 they need to be concerned about, and it will be the

00593

1 same wherever they fall.

2 Q. Okay. But it's not specified here what
3 that additional fee would be?

4 A. No, it's not laid out here. We've had some
5 talks about -- in terms of what the fee would be. A
6 lot of the variability in it is associated with what
7 we think access will be moving, how access will be
8 moving and changing.

9 Q. So you can't make any prediction about what
10 it would be at this point?

11 A. If everything stayed as it was, I'm
12 imagining it in the \$4 range. So you're looking at a
13 combined fee of, I think, 8.95.

14 MR. THOMPSON: I see we're approaching
15 10:00. And actually, that is my last question for
16 you. So hopefully that will be a convenient point.
17 Thank you, Ms. McMahon.

18 THE WITNESS: Thank you.

19 JUDGE CAILLE: Great. We will take a
20 recess, our morning recess, until 10:30.

21 (Recess taken.)

22 JUDGE CAILLE: Let's go back on the record.
23 We are reconvened after our morning recess, and I
24 believe, Mr. Thompson, you completed your
25 cross-examination?

00594

1 MR. THOMPSON: I have one more matter, and
2 actually, that's just to move for the admission of
3 Exhibit 178.

4 JUDGE CAILLE: Is there any objection to
5 the admission of Exhibit 178?

6 MR. CROMWELL: No objection.

7 MS. HOPFENBECK: No objection.

8 JUDGE CAILLE: Then it is admitted into the
9 record. Now, Mr. Cromwell.

10 MR. CROMWELL: Thank you, Your Honor. I'll
11 move this microphone closer and I'll try to talk
12 slowly here.

13 C R O S S - E X A M I N A T I O N

14 BY MR. CROMWELL:

15 Q. Good morning, Ms. McMahon. My name is
16 Robert Cromwell. I'm with Public Counsel.

17 A. Good morning.

18 Q. How are you doing this morning?

19 A. Fine, thank you.

20 Q. A few questions, just to follow-up on your
21 discussion with Mr. Thompson before beginning with
22 the questions I prepared. Approximately how many
23 long distance mass market customers does MCI
24 currently have?

25 A. In total?

00595

1 Q. Yes.

2 A. Mass markets? I don't believe that's a
3 number the company releases.

4 Q. Would you like to clear the courtroom to
5 talk about that?

6 A. It's not a number that we report, so I'd
7 have to ask.

8 Q. You don't report it to FCC or anything?

9 A. We don't report it in the press, we don't
10 talk about that, we don't report separately. I know
11 the number.

12 MS. HOPFENBECK: If the number is a
13 confidential number, we would have no objection to
14 going into a confidential session to talk about this
15 information, but I guess the question would be,
16 before we go there, if we could get a sense of what
17 relevance this has in this proceeding, and then I
18 think we should --

19 MR. CROMWELL: Actually, I'm keying off of
20 her discussion earlier regarding different
21 competitors.

22 JUDGE CAILLE: Shall we --

23 MS. HOPFENBECK: If the Commission would
24 like to hear this information.

25 COMMISSIONER HEMSTAD: Well, I guess my --

00596

1 is that number of critical importance to your line of
2 --

3 MR. CROMWELL: Well, perhaps we can dance
4 around it, Your Honor.

5 Q. Ms. McMahon, you stated earlier that
6 Talk.com has 1.5 million long distance subscribers,
7 did you not?

8 A. I did.

9 Q. What percentage, roughly speaking, of
10 WorldCom's mass market long distance subscribers
11 would that be?

12 A. I'm, in effect, giving you the number,
13 then.

14 Q. Okay. Then let's clear the courtroom and
15 you can give me the numbers.

16 JUDGE CAILLE: Okay. All right. I'm going
17 to have to turn off the bridge line, so this will
18 take a couple minutes. And everyone who has not
19 signed the protective order, will you please leave
20 the room? And we'll call you back as soon as we can.
21 Dr. Hausman has signed it?

22 MR. PASCARELLA: No.

23 JUDGE CAILLE: No, he hasn't.

24 MS. ENDEJAN: No, Dr. Hausman has not
25 signed the order, no, so we're asking him to leave.

00597

1 JUDGE CAILLE: Mr. Cromwell, will there be
2 other items that might need us to go off the public
3 record?

4 MR. CROMWELL: I was just trying to look
5 through my questions, and I think it really just
6 focuses on some of the responses she gave Mr.
7 Thompson. I don't believe I have any -- I only have
8 two or three questions that relate to that issue, and
9 I think it would be relatively brief.

10 JUDGE CAILLE: All right. If anyone is on
11 the bridge line, we are going to be cutting you off
12 momentarily. And do you have any idea, Mr. Cromwell,
13 how long your -- so for about five minutes. And the
14 person who is going to cut off the bridge line is
15 here now, so if you could join us at 10 to 11:00,
16 just to make sure. Try to call in again at 10 to
17 11:00. Let's go off the record for just a moment.

18 (The following portion of the proceedings
19 is contained in a separate and confidential
20 record.)
21
22
23
24
25