

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Petition of)	DOCKET NO. UT-050814
)	
Verizon Communications Inc. and MCI, Inc. For Approval of Agreement and Plan of Merger)	VERIZON RESPONSE TO PUBLIC COUNSEL ANSWER TO VERIZON STATEMENT RE: SUMMARY OF PLANS FOR MERGED OPERATIONS
)	

1. Pursuant to the Notice of Opportunity to Respond to Answer issued in this docket on November 14, 2006, Verizon Northwest Inc. (“Verizon NW”) hereby responds to the Answer filed by Public Counsel on November 13, 2006 (“Answer”). No support is provided in the Answer for the Public Counsel requests that the Commission: (i) determine that Verizon NW’s filings on this matter do not comply with Paragraph 171 of Order No. 7 in this docket (the “Merger Order”) and (ii) initiate a complaint proceeding to reevaluate the competitive classification status of former MCI entities in Washington. For all the reasons set forth herein, both requests should be rejected.

1. *Verizon NW has complied with Paragraph 171 of the Merger Order.*

2. Verizon NW was required under Paragraph 171 of the Merger Order to file “a summary of its plans for conducting its merged operations in Washington State within 60 days after those plans are determined but not later than January 1, 2007” (“Operations Filing Requirement”). Because Verizon NW’s parent company, Verizon Communications Inc. (“Verizon”), and its subsidiaries do not have an overall plan for “merged operations,” Verizon NW has made three filings to date to keep the Commission

informed of post-merger operations. The three filings have complied with the letter and spirit of the Operations Filing Requirement, which was enacted to prevent circumvention of Verizon NW's Washington tariffs. *See* Merger Order at ¶¶ 168-72.

3. The first filing (dated March 17, 2006) notified the Commission well within 60 days of changes made to the price lists of MCI Communications Services, Inc. d/b/a Verizon Business Services ("MCI Communications") and MCI Metro Access Transmission Services LLC d/b/a Verizon Access Transmission Services ("MCI Metro") to grandfather the "Neighborhood" offerings in the Verizon NW service territory.¹ Similarly, the second filing (dated June 2, 2006) notified the Commission well within 60 days of changes made to the price list of TTI National, Inc. ("TTI") to grandfather its services in the state of Washington. The third filing (dated October 20, 2006) offered additional background on Verizon's post-merger operations so that the Commission could further understand that there has been no circumvention of Verizon NW's Washington tariffs. To the contrary, as explained in the October 20 filing, Verizon has taken steps in the opposite direction through efforts to concentrate the provision of certain new mass market services in the Verizon NW service territory through the heavily regulated Verizon NW entity.

4. The bottom line is that Verizon does not have an overall set of "plans for conducting ... merged operations in Washington State." Thus, Verizon NW has complied with the Operations Filing Requirement that it provide a summary of plans by

¹ As noted indirectly by the first question on page 5 of the Answer, the changes made to services provided by MCI Communications and MCI Metro were made through amendments to price lists, not tariffs. Use of the generic term "tariff" instead of the precise phrase "price list" in Verizon NW's earlier filings may have caused some confusion, which should be eliminated by this clarification. Moreover, the price lists of MCI Metro and MCI Communications have since been removed (on September 25, 2006) pursuant to recently enacted legislation (SSB 6473).

providing notices to the Commission on a timely basis, as decisions were made over the last year. Verizon NW supplemented those filings with its October 20th letter in response to concerns expressed by Public Counsel. Through these filings, Verizon NW has provided the Commission with all information responsive to the Operations Filing Requirement. That information satisfies the Merger Order, and confirms that Verizon NW's tariffs have not been circumvented in any respect.

2. *Re-examination of the competitive classifications of former MCI entities is unwarranted.*

5. Public Counsel does not cite to any of the information provided by Verizon NW in response to the Operations Filing Requirement for its unsupported request that a complaint be heard to revoke the competitively classified status of former MCI entities in Washington. That is because none of the information provided by Verizon NW offers any basis to revoke these classifications. Similarly, no basis exists for revoking the competitive classifications in the additional information Verizon NW presents in subsection (b) below in response to further Public Counsel questions set forth in its Answer.

a. There is no legal basis to revoke the competitive classifications.

6. There is no statutory basis for revoking the competitive classifications of the former MCI entities. These entities were classified as “competitive telecommunications companies” because, under RCW § 80.36.320, the services they offered were “subject to effective competition.” They still are. A company is subject to “effective competition” if the “company’s customers have reasonably available alternatives” and “the company

does not have a significant captive customer base.” RCW § 80.36.320(1). Among the factors to be considered in that analysis are: (a) the number and sizes of alternative providers of service; (b) the extent to which services are available from alternative providers in the relevant market; (c) the ability of alternative providers to make functionally equivalent or substitute services readily available at competitive rates, terms and conditions; and (d) other indications of market power which may include market share, growth in market share, ease of entry, and the affiliation of providers of services. RCW § 80.36.320(1). Former MCI entities still face competition from significant numbers and sizes of alternative providers offering services at competitive rates, terms and conditions. And, with many of their services being provided in Qwest service territories, the entities clearly lack market power and are subject to competition from at least one carrier with a significant market share.

7. The changes to the three price lists referred to in Verizon NW’s March and June filings do nothing to limit the “effective competition” faced by the former MCI entities for the services they offer, and that caused them to be competitively classified in the first instance. Those entities continue to face competition from multiple sources in every market and for every service they provide. Indeed, if these former MCI entities are deemed not to face “effective competition” based on the sources of competition within Qwest service territories, then neither are all the other “competitively classified” carriers offering services in the same territories. In fact, the very idea that these former MCI entities face something less than “effective competition” is an eye roller when considered against the backdrop of all the (both intra- and inter-modal) competition that is changing the telecommunications landscape in Washington.

b. Answers to Public Counsel's follow-up questions do not present any grounds to revoke the competitive classifications.

8. Perhaps realizing that the Answer offers a remedy (revocation of competitive classifications) in search of a problem, Public Counsel resorts to posing a number of make-weight questions about Verizon NW's October letter. Although the questions (found in paragraph 10 on page 5) appear designed to create a controversy where none exists, Verizon NW will nonetheless undertake here to answer them.
9. Public Counsel inquires about Verizon NW's use of the word "tariffs" to describe its filings for MCI Communications, MCI Metro and TTI. As discussed in footnote 1, Verizon NW used the generic word "tariffs" in error; it should have referred to the "price lists" of these entities because they are all competitively classified and – until relatively recently – were governed by price lists on file with the Commission.
10. Public Counsel asks what is meant by the statement that existing customers of MCI Communications and MCI Metro in the Verizon NW service territory are "unaffected" by the grandfathering of mass market local service and "Neighborhood" offerings. "Unaffected" simply means what it says: existing customers at the time of the grandfathering will continue to receive the same services through the terms, conditions and rates that were once in price lists and that are now provided through general contract (since the price lists of these two entities were withdrawn recently pursuant to statutory changes). Those existing customers may make changes to their accounts (including changes to features and plans), add more lines and still retain service if they move.

11. A related question asks whether these existing customers have experienced any price changes since the merger. There have been a number of price changes, all of which were implemented through the regulatory regime applicable at the time of the change (e.g., price changes completed prior to the September 25th withdrawal of price lists were implemented through Commission procedures for price lists changes, including providing Commission notice). These price changes, however, were done in the ordinary course of business and do not amount to plans for conducting merger operations. Moreover, changes in the prices charged by the former MCI entities do not alter the “effective competition” faced by such entities and thus are irrelevant to Public Counsel’s stated concerns about their competitive classifications.
12. An inquiry is also made as to whether the May and June filings meant that the referenced services are “gradually being phased out.” The filings speak for themselves, and mean only that new customers in the specified territories cannot subscribe to the grandfathered offerings. As to the method for handling a hypothetical situation in which a potentially new mass market local service customer in the Verizon NW territory “call[s]-in to request service” from MCI, such calls are typically routed to a representative of Verizon NW. Directing calls in this manner makes sense, as these former MCI entities are no longer providing new mass market local services in the Verizon NW territory. Moreover, call routing says nothing about the “effective competition” faced by the former MCI entities in question for services they provide.
13. Public Counsel asks under what brand name are MCI Metro services being sold in the Qwest service territory. Mass market and small business services being sold by MCI Metro continue to be branded as MCI, while services to medium and large businesses as

well as government customers are branded as Verizon Business. Although Public Counsel's related questions regarding whether new mass market customers are "actively being sought" or subjected to advertising by MCI Metro are somewhat unclear, the general answers are that MCI maintains an internet website to market its services to potential customers, and will serve customers requesting service (in areas that have not been grandfathered). MCI does not currently (and has not since well before the merger) advertise on TV or radio, and does not engage in outbound telemarketing in Washington. Again, though, the relevant inquiry regarding a company's competitive classification is whether the company faces "effective competition" from others, not whether the Public Counsel deems the company's advertising program to be sufficient.

14. Questions are also asked about the services offered by TTI and Telecom USA. Both entities provide long distance services. Telecom USA provides both presubscribed and unbranded dial-around (10-10-220, 321, and 987) services to retail customers. TTI sells presubscribed long distance service directly to small business and residential customers. Neither entity resells such services to other carriers.
15. An inquiry is made as to why the business unit Verizon Telecom is not discussed "in the same manner as Verizon Business is explained." If the October letter placed more emphasis on Verizon Business than Verizon Telecom, that was simply because it was drafted to address specific questions posed by Public Counsel in meetings about the nature, and the branding, of Verizon Business. Verizon Telecom is similar to Verizon Business in that it is a separate business unit that also has its own management structure. As to the services provided by Verizon Telecom, it can best be described as a catch-all with regard to services not provided by Verizon Business or Verizon Wireless.

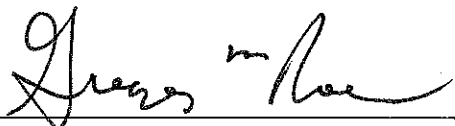
16. In response to the question as to whether Verizon NW is “part of Verizon Telecom,” the answer is no: Verizon NW is a separate legal entity. Verizon NW and the former MCI entities deliver services to their customers through the efforts of both the Verizon Business and Verizon Telecom business units. Specifically, mass market customers and small business customers of Verizon NW and former MCI entities are served by the Verizon Telecom business unit, and medium business, large business and government customers of the Verizon NW and former MCI entities are served through the work of the Verizon Business business unit.

Conclusion

17. Verizon has complied fully with the Operations Filing Requirement in the Merger Order, and has provided all relevant information to assure the Commission that the tariffs of Verizon NW are not being circumvented. Moreover, there is no reason for the Commission to revoke the competitive classifications of former MCI entities, as they all face “effective competition.” Accordingly, the Commission should reject the request of the Public Counsel to find Verizon NW in non-compliance of the Merger Order, and should not initiate a complaint proceeding on the competitive classifications of the former MCI entities.

Respectfully submitted this 20th day of November, 2006

VERIZON NORTHWEST INC.

By 

Gregory M. Romano
Vice President & General Counsel
1800 41st Street, WA0105GC
Everett, WA 98201
Phone: (425)261-5460