BEFORE THE WASHINGTON UTILITY AND TRANSPORTATION COMMISSION

In the Matter of the Petition of MCI WorldCom, Inc. and Sprint Corporation For an Order (1) Disclaiming Jurisdiction Or, (2) in the Alternative, Approving the Transfer of Control of Sprint Corporation's Washington Operating Subsidiaries to MCI WorldCom, Inc.	))))))))))	Docket No. UT-991991

DIRECT TESTIMONY OF
EMERIC W. KAPKA

ON BEHALF OF
SPRINT CORPORATION

January 19, 2000

Q. PLEASE STATE YOUR FULL NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Emeric W. Kapka. I am employed by Sprint Corporation ("Sprint") as a Director - Regulatory Policy/Coordination. My business address is 8140 Ward Parkway, Kansas City, Missouri 64114.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK EXPERIENCE AND PRESENT RESPONSIBILITIES.

A. I received a Master of Arts degree in Economics from Cleveland State University in 1982 and a Bachelor of Arts degree in Economics from the same university in 1980. I have been in my present position since November 1997. My current responsibilities include the development of policy positions on regulatory and legislative issues that support the goals of Sprint and its customers. Previously, I was the Director – Access Planning for Sprint Communications Company, L.P. My responsibilities included managing Sprint's access purchases as they related to the budgets, regulatory, marketing and access network deployment functions. I have held numerous management positions with Sprint's local and long distance companies during my 15-year career with Sprint including stints with two of the Sprint local telephone companies. I began my regulatory career with the Indiana Public Service Commission in 1983 where I worked as a financial analyst, testifying on financial, economic and policy issues in rate proceedings. Previously, I worked for the Indiana Department of Commerce as an economic analyst. I have testified and been involved in regulatory proceedings at the FCC and in numerous states.

WHAT IS THE PURPOSE OF YOUR TESTIMONY?

The purpose of my testimony is to show how the proposed merger between MCI WorldCom and Sprint is consistent with the public interest and will benefit Washington consumers and businesses. I explain in detail, from Sprint's perspective, how these benefits will be accomplished, and why this merger will help promote a competitive marketplace while protecting and maintaining the wide availability of high quality telecommunications services.

PLEASE SUMMARIZE YOUR TESTIMONY.

Because this proposed merger promises to accelerate the pace and broaden the scope of local competition, this merger will benefit Washington consumers. By combining the assets of Sprint: innovative product offerings and award winning customer service, Sprint's MMDS licenses, Sprint PCS, and Sprint's experience as a provider of local service, with those of MCI WorldCom, the new company will bring the requisite size, experience and substance to provide meaningful competition to what remains largely a monopoly local exchange marketplace.

To be sure, the distinctions of "local" and "long distance" and of "voice" and "data" are being obliterated by technological and product packaging developments, but for most consumers the choice for local service remains limited to the incumbent local exchange company, even for customers based in large markets like Seattle. The competitive benefits that consumers have enjoyed over the last 15 years in long distance, including rapidly declining prices and innovative services have largely bypassed the local marketplace. This merger brings together two companies with a long distance heritage borne of competition with the scale and scope necessary to make broad-based, local facility entry a viable financial pursuit.

Q. WHAT SERVICES DOES SPRINT PROVIDE IN WASHINGTON?

A. Sprint has been certificated to provide long distance service in Washington since 1986 and has provided local services through United Telephone Company of the Northwest since the early part of this century. Additionally, Sprint was certified as a CLEC in 1997. The services Sprint offers to its customers include voice-based long distance targeted to consumers and a wide range of voice and data products targeted to small, medium and large businesses. The value of Sprint assets in Washington exceed $ 350 million, including switches, fiber optic cables and rights-of way.

Sprint began offering wireless service through Sprint PCS in late 1996. Sprint PCS wireless service is currently available in the greater Spokane/Coeur d'Alene area and along the I-5 corridor from Vancouver in the south, throughout the Seatlle metro area, and to the Canadian border in the north. Cities served by Sprint PCS, besides those mentioned, include Cheney, Burlington, Mount Vernon, Everett, Lynnwood, Bremerton, Issaquah, Renton, Kent, Tacoma, Olympia, Centralia and Chehalis. Sprint PCS is currently in the process of expanding service to include much of the Kitsap peninsula, north of Seattle to the Canadian border, and the Seattle metro area. Additionally, Sprint PCS recently entered into an agreement with Washington Oregon Wireless, LLC, to expand Sprint PCS service to Yakima, Ellensburg, Richland, Pasco, Kennewick, Walla Walla and Wenatchee. Sprint is authorized to provide service throughout Washington via 3 FCC licenses. Pursuant to FCC wireless license rules, Sprint is required to provide service to areas serving 33% of Washington's population within 5 years and 66% of the population within 10 years. Sprint has already met its 10 year license requirement in two of the license areas and expects to meet all obligations in the third.

OVER TIME, HAVE LONG DISTANCE PRICES DECLINED IN WASHINGTON?

Yes. Traditionally defined long distance has proven to be extremely competitive nationally and in Washington. Sprint has been a leader in offering customers alternatives to long distance products that were based on complicated mileage bands and rates that made sense only to economists. Sprint has pioneered rate plans for residential customers that are simple and easy for customers to understand and appreciate. Long distance prices offered by Sprint to its residential customers in Washington have declined far in excess of any access rate decreases over the last several years. I have attached exhibit EWK-1, which details Sprint price reductions compared to access reductions experienced in Washington over the last several years. The long distance market has become extremely competitive with numerous resellers and with the new construction of state-of-the art nationwide fiberoptic networks such as those being built by QWEST, the Williams Companies and Level 3.

Indeed, the experience of Qwest illustrates the degree of long distance competition and the ability of a relatively small entrant to influence prices and product offerings. Qwest reports that its communication services revenues grew 46% between the second quarter of 1998 and the second quarter of 1999, and from $92 million in fiscal 1996 to $1.55 billion in fiscal 1998. Qwest expects to be at $3.5 billion for 1999[1].

Qwest and other "emerging" IXCs' (that is, carriers other than AT&T, Sprint, and MCI) share of long distance minutes, as reported by the FCC, have increased from 13.8% to 20.8% between 1995 and 1998[2]. Thus, Qwest, for example, even though it is a relatively small carrier, by offering innovative pricing plans such as Qwest Countdown[3], can grow market and influence overall industry prices.

WHAT IS SPRINT'S LONG DISTANCE MARKET SHARE IN WASHINGTON?

According to a recently published report produced by the FCC, Sprint's residential long distance

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[1] As reported in Sprint/WorldCom FCC application. Besen and Brenner affidavit, p. 19, taken from "Corporate Profile" of Qwest Communications, Inc., appearing in *Research Magazine*, October 1999.

[2] See Table 11.3 in Federal Communications Commission *Trends in Telephone Service*, Washington DC: Common Carrier Bureau, Industry Analysis Division, September 1999, p. 11-7.

[3] The weekday rate in Countdown is initially 9¢ a minute, while the weekend rate is 5¢ a minute (an MRC of $4.95 applies as well). However, Qwest rewards loyalty by lowering the weekday rate every 90 days by ½¢ down to 5¢ after approximately 25 months. Customers can also enroll in a plan for 5¢ everyday (albeit with a higher MRC of $8.95). Qwest also bundles internet access and 250 minutes of long distance for $24.95 per month. Source; www.qhome.net/ld/offer/jhtml

market share in Washington is 4.8%. I don't have any published information on Washington specific business market share, but Sprint's national market share, as reported by the FCC for 1998, was 9.4% while the same report indicates that Sprint's national residential market share is 5.7%[4].

[4] State-by-state residential marketshare information is reported in *Trend in Telephone Service*, Industry Analysis Division of the Common Carrier Bureau of the Federal Communications Commission, at Table 11.5. National marketshare is reported in the same document at Table 11.4.

DO YOU BELIEVE THAT THIS MERGER WILL HARM LONG DISTANCE COMPETITION?

A. No. Combining Sprint's long distance market share with MCI WorldCom's leaves the combined company with a smaller market share than AT&T. Also, once US West complies with Section 271 of the Act and other legal and regulatory requirements, given its pending merger with Qwest, it can be expected very quickly, to become a formidable long distance competitor in Washington. As I explain in more detail below, the merger will improve the state of local competition. Because the distinctions between "local" and "long distance" are disappearing, the benefits of the merger on local competition will have corresponding positive benefits on long distance competition, and in fact, on increasing competition in all telecommunications markets.

Q. DOES SPRINT PROVIDE LOCAL SERVICE IN WASHINGTON?

A. Yes, Sprint provides local service in Washington through its United Telephone Company of the Northwest subsidiary. United's customer base is rural in nature with approximately 88,834 access lines in various exchanges including Poulsbo, Sunnyside, and Toppenish, with the two largest exchanges having 28,600 and 10,773 access lines. Half of Sprint's exchanges in Washington have under 1000 access lines. This equates to approximately 2.6% of Washington's total access line count.

Additionally, Sprint is certificated to provide local services in Washington as a CLEC. In November 1999, Sprint announced the introduction of Sprint ION (Integrated On-demand Network) in Seattle with customer turn up expected later in the first quarter or early in the second quarter Sprint ION is an integrated communication system providing cost-effective, integrated local and long distance voice services, multiple phone lines, advanced calling features (such as Caller ID), high-speed internet access and customer-controlled features over a single connection to a residence or business.

Q. TO WHAT EXTENT HAVE SPRINT'S CLEC SERVICE ROLL OUT PLANS BEEN REALIZED?

A. Sprint's local entry plans in Washington are reflective of Sprint's local entry plans in other states. Let me provide some perspective. In mid 1995, Sprint began to evaluate wide-scale wireline local entry in Washington and elsewhere. With the passage of the Telecommunications Act in 1996, the path of local entry was defined to include resale, unbundled network elements (UNE) and/or a hybrid solution consisting of resale, UNE and facility deployment. Sprint believed it could leverage its success in long distance into the traditional RBOC-dominated local markets. Each of the local entry paths depended, to some extent, on the availability of network components furnished by the incumbent RBOCs at reasonable price points.

After the Act was passed, legal and regulatory battles ensued regarding interconnection, the level of resale discounts, and the availability of UNEs and the UNE Platform (UNE-P). Meanwhile, Sprint continued to evaluate various local market entry approaches. In 1996, Sprint began providing local service on a resale basis within both GTE and Pacific Bell local areas in California. Sprint's local entry team consisted of several experienced executives, managers and technical staff who brought to the new business venture extensive local telephony experience, gained in service with Sprint's local telephone companies.

By early 1998, as the regulatory and legal uncertainties surrounding the availability of UNEs continued, especially the UNE-P, Sprint determined that continued reliance on the RBOCs (and other ILECs) for essential network elements in providing local service could prove challenging at best and disastrous at worst.

While Sprint's experience with GTE and Pacific Bell resulted in valuable learning experiences, Sprint found neither company had the necessary operational support systems in place to facilitate broad local market entry either on a resale or UNE basis. As various state Commissions adopted prices for resale discounts and UNEs during this period, Sprint also realized that only under extremely limited circumstances would resale prove economically viable.

The limitations of a resale entry strategy are driven by two facts: resale discounts are too low and resale does not afford the reseller the ability to differentiate local service offerings from those of the underlying ILEC. Growing the base of resale customers does not alleviate either one of these problems. As an entry vehicle, resale could only be justified under the assumption that the customer base would grow large enough over time to eventually support a facility based approach.

Sprint realized that to be successful in the marketplace it had to have a product that customers could distinguish from products offered by competitors. In addition, market research and customer focus groups indicated that consumers desire one-stop shopping. Sprint's largest competitors, AT&T and the RBOCs, have been moving toward offering integrated services. Thus Sprint's "local entry" push has focused on providing an integrated service that can be differentiated from the traditional wireline local service offered by the RBOCs, Sprint ION is not totally reliant on the ILEC for all essential network elements when deployed using a facilities-based network configuration. This approach to local entry is much more costly and more time consuming, but ultimately, Sprint believes it is necessary to ensure long term success.

HOW WILL THE PROPOSED MERGER ACCELERATE THE AVAILABILITY OF ION IN WASHINGTON?

Large business users can use their traditional special access facilities to connect their locations to the Sprint ION network. Eventually, smaller businesses and residential users will be able to connect to ION via xDSL solutions. The ability of Sprint to economically serve customers, especially the small business and residential set, is based on two related factors, availability of access connections at economical prices and the number of individual customers purchasing the service. Sprint plans to use xDSL technology to facilitate ION service to small business and most residential customers. Sprint will collocate in ILEC central offices to gain access to ILEC UNEs for this purpose. Collocation costs are for the most part, fixed. Therefore the decision to collocate and provide ION service in an exchange area is dependent on the number of customers who will purchase the service. Sprint has collocations in several US West offices in the Seattle area and has plans to collocate in more large offices during 2000. Additionally, Sprint has plans to collocate in several central offices in Spokane in 2001. At present, Sprint has no plans to collocate elsewhere in Washington.

If the merger is approved, the combined Sprint and MCI WorldCom will be able to offer Sprint ION to MCI WorldCom's existing and potential base of customers. This will greatly improve the prospects for ION deployment and increase the number of specific areas in which ION can be economically offered. Sprint will be able to avail itself of WorldCom's existing and planned collocations in addition to other WorldCom facilities, thereby reducing reliance on the ILECs and ultimately reducing the unit cost and ensuring better speed to market and more ubiquitous deployment of ION. This will translate into more choices for all Washington consumers and business customers.

Q. WHAT OTHER COST SAVINGS WILL RESULT FROM THE MERGER?

The merger-related cost savings attributed to growing scale can be realized in the access network as well as the local network. Today, Sprint purchases ILEC provided switched and special access to provide connections between Sprint customer locations and the Sprint network. Sprint has used alternatives to ILEC access facilities in the past, but the internal cost of managing non-ILEC vendors renders the use of alternative access providers somewhat problematic for Sprint. The implications of this are that Sprint's competitors are better positioned economically to either self provision or use alternative access providers. Sprint finds itself in a significant scale driven cost disadvantage relative to AT&T and MCI WorldCom today. Furthermore, the entry of a combined US West/Qwest as a provider of integrated services over the coming years means that Sprint could be access cost disadvantaged on the basis of scale to two or possibly three, larger rivals. While scale differences between AT&T and US West/Qwest relative to a combined, Sprint and MCI WorldCom would persist, the proposed merger would allow the combined companies to better manage this differential.

The proposed merger would enable Sprint to utilize the same kind of access alternatives that MCI WorldCom utilizes including its own local fiber-based transport rings and customer connected facilities. This would increase Sprint's supplier choices leading to less reliance on US

West and would enable Sprint to remain competitive on prices, especially to the large customer segment. Because access facilities can be substitutes for local facilities in certain circumstances, this resulting improvement in Sprint's access situation can also have positive effects on the development of local competition.

Q: WILL THE MERGER IMPACT SPRINT'S UNITED TELEPHONE COMPANY OF THE NORTHWEST SUBSIDIARY?

A: No. the merger of Sprint and MCI WorldCom should have little if any impact on United. Since MCI WorldCom's business is primarily long distance-based, the efficiencies and synergies that result will accrue primarily to Sprint's long distance operating division. After the merger United will continue to be regulated by the Commission just as it is today. The only difference will be that United's parent corporation will be MCI WorldCom instead of Sprint Corporation.

YOU MENTIONED THE AVAILABILITY OF MMDS LICENSES. WHAT ROLE DOES MMDS PLAY IN THE MERGER?

One of the most exciting aspects of the merger, from a technology perspective, is the combined potential of the MMDS (Multichannel Multipoint Distribution Services) licenses held by Sprint and MCI WorldCom. MMDS licenses will provide a less expensive broadband alternative to RBOC-provided facilities for small business and residential applications. Within Washington, Sprint holds MMDS licenses in Seattle/Tacoma, Bellingham, Spokane and Yakima.

By merging, the new WorldCom will be better able to develop and deploy cost- effective broadband services because development and fixed costs can be recovered over a larger customer base. Sprint will be positioned to use WorldCom's fiber network rings to link its MMDS towers leading to better reliability of the service. By combining the wireless broadband efforts of the two companies, the merger will produce a company better positioned to compete with the ILECs for both traditional and advanced services. The fiber-based facilities of MCI WorldCom and the MMDS licenses, which can deliver broadband service necessary for advanced applications such as Sprint ION, complement one another, each serving in turn to strengthen one another and the company as a whole.

HOW WILL SPRINT'S LOCAL TELEPHONE DIVISION STRENGTHEN THE ABILITY OF THE NEW MERGED COMPANY TO PROVIDE LOCAL SERVICE IN WASHINGTON?

Sprint's local telephone division significantly expands the new company's expertise in providing local service and brings extended geographic and demographic coverage to the merged company. Sprint has been providing local phone service for 100 years, and today serves approximately 7.9 million access lines in eighteen states (about 5% nationally) using 100% digital switching and an extensive fiber network. Sprint's local division already has in place a large, trained, and operational work force that has the particular expertise to provide quality local service. The new company will be able to quickly use this trained work force to provide quality provisioning, billing, and customer care in Washington.

Sprint's engineering force designs, deploys, and maintains state-of-the-art digital networks throughout the country. It's administrative force builds and maintains quality local telephone billing systems and customer care centers. Not only does Sprint's local division have the needed expertise, it also has a substantial number of personnel who are available to provide service and train others. This will enable the new company to more readily enter and expand its efforts in multiple local markets simultaneously, and will accelerate the new company's entry into local markets throughout Washington.

DO YOU HAVE ANY CONCLUDING COMMENTS?

A. Yes. This merger will accelerate the pace of local competition and ensure the delivery of low-price, high quality services to the citizens of Washington. Today's long distance market is exceedingly competitive. Sprint’s local operations in Washington will remain unaffected by the merger, and the Commission’s regulatory oversight over United will continue after the merger. The combination of MCI WorldCom and Sprint will ensure that consumers and business customers in Washington have a real and lasting choice in the provision of local and integrated services and ultimately in reaping the benefits of competition.