

1 **BEFORE THE**
2 **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

3 In the Matter of the Petition of

4 **MCI WORLDCOM, INC. AND SPRINT**
5 **CORPORATION,**

6 For an Order (1) Disclaiming Jurisdiction Or,
7 (2) in the Alternative, Approving the Transfer
8 of Control of Sprint Corporation's Washington
9 Operating Subsidiaries to MCI WORLDCOM,
10 Inc.

Docket No. _____

JOINT PETITION

9 MCI WORLDCOM, Inc. ("MCI WorldCom"), and Sprint Corporation ("Sprint")
10 (together, "Petitioners"), by their undersigned counsel, petition this Commission for an order
11 disclaiming jurisdiction or alternatively approving the transfer of control of Sprint's Washington
12 operating subsidiaries to MCI WorldCom.

13 This request is being made to implement the October 5, 1999 Agreement and Plan
14 of Merger (the "Merger Agreement") by MCI WorldCom and Sprint Corporation ("Sprint"),
15 pursuant to which MCI WorldCom will acquire control of Sprint and its Washington operating
16 subsidiaries.¹ A copy of the Merger Agreement is attached as Exhibit 1. The proposed merger
17 will create a global next generation communications company capable of providing Washington
18 consumers with the full range of telecommunications services. By aggregating their assets and
19 expertise, the combined companies will be able to meet customer needs far more effectively than
20 either company can do individually today. By joining forces, MCI WorldCom and Sprint can
21 address the formidable competition presented by AT&T and the newly combined and combining
22 Bell Companies, including Bell Atlantic/GTE, U S WEST/Qwest and SBC/PacTel/Ameritech.

23 _____
24 ¹ The proposed transaction will result in a transfer of control of the following Sprint operating
25 subsidiaries in Washington (together the "Operating Subsidiaries"): United Telephone Company of the
26 Northwest (ILEC and Primary Toll Carrier), Sprint Communications Company, Limited Partnership
(IXC, CLEC, and Debit Card Company) and ASC Telecom, Inc., d/b/a Alterna Telephone (IXC and Debit
Card Company). Sprint Communications Company, Limited Partnership has received competitive carrier
classification from the Commission.

1 At the same time, the Petitioners remain committed to maintaining necessary levels of
2 investment in infrastructure in Sprint's local exchange network and continuing to provide high
3 quality service to all of their existing residential and business customers in Washington. Thus,
4 the merger of MCI WorldCom and Sprint will have no negative effect upon existing local
5 services and will serve the public interest by enhancing the ability of the merged company to
6 compete in Washington's rapidly evolving telecommunications marketplace.

7 **I. JURISDICTION**

8 Petitioners respectfully submit that, as holding companies, neither of them is a
9 public service company subject to the Commission's jurisdiction with regard to the proposed
10 merger. RCW 80.12.020 requires Commission authorization for a public service company (as
11 defined in RCW 80.04.010 and RCW 80.12.010) to sell, lease, assign or otherwise dispose of, or
12 merge or consolidate, any of its franchises, properties or facilities with any other public service
13 company. Similarly, under RCW 80.12.040, Commission authorization is necessary before
14 another public service company can, directly or indirectly, purchase, acquire or become the
15 owner of any of the franchises, properties, facilities, capital stocks or bonds of a public service
16 company. While Petitioners are aware of the Commission's recent order asserting its jurisdiction
17 over the merger of GTE Corporation and Bell Atlantic Corporation, they continue to believe that
18 these statutory authorities do not give the Commission jurisdiction over a transaction involving a
19 merger of the corporate parents of public service companies. In particular, neither
20 RCW 80.12.020 nor 80.12.040 applies here because no public service company is being affected
21 by the transaction. Accordingly, the Petitioners respectfully request an order of the Commission
22 that it does not have jurisdiction over the transaction and that no authorizations are required
23 under Chapter 80.12 RCW.

24 Alternatively, even assuming that the Commission's jurisdiction extends to the
25 transfer of control of a fully regulated public service company, such as United Telephone
26 Company of the Northwest d/b/a Sprint ("United"), to WorldCom, Petitioners submit that the

1 Commission's review should be limited to the impact of the proposed merger on United and its
2 ratepayers. In 1986, the Commission waived jurisdiction over transfers of property, affiliate
3 transactions and issuance of securities with respect to U.S. Sprint Communications Company and
4 MCI Telecommunications Corporation based on its determination that the long-distance market
5 was subject to effective competition. The long-distance market continues to be subject to
6 effective competition and has become even more competitive since those waivers were issued.
7 As discussed in more detail below, the merger of MCI WorldCom and Sprint, while resulting in
8 some increased concentration at the margin and in the short term, will not change the robustly
9 competitive nature of the intrastate long-distance market.² For this reason, the Petitioners
10 respectfully request that the Commission decline to revoke the previously granted waivers of
11 jurisdiction and limit any review of the proposed merger to the effect upon United.

12 **II. DESCRIPTION OF THE COMPANIES**

13 **A. MCI WorldCom, Inc.**

14 MCI WorldCom is a publicly traded Georgia corporation. Its principal offices are
15 located at 500 Clinton Center Drive, Clinton, Mississippi, 39056. MCI WorldCom is a global
16 telecommunications company. Through various operating subsidiaries, MCI WorldCom is
17 authorized to provide intrastate IXC services in 50 states and the District of Columbia, including
18 intrastate services within Washington.³ The MCI WorldCom IXC subsidiaries also are
19 authorized by the FCC to offer domestic interstate and international voice and data
20 telecommunications services nationwide. MCI WorldCom subsidiaries are qualified as
21 competitive local exchange carriers ("CLECs") in all 50 states.⁴ MCI WorldCom has acquired
22 multichannel multipoint distribution services ("MMDS") frequency channels in a number of
23 markets and seeks to develop this spectrum to offer wireless direct broadband access
24

25 ² See discussion, *infra* at pp. 22-24.

26 ³ See Exhibit 2 containing an organization chart showing the MCI WorldCom subsidiaries authorized to provide intrastate interexchange services and CLEC services in Washington.

⁴ *Id.*

1 independent of landline telephony or cable television facilities. MCI WorldCom offers
2 international public switched voice, private line and data services to other carriers and to
3 business, government, and residential customers, including direct services to approximately 160
4 foreign countries. MCI WorldCom also operates SkyTel Communications, Inc., the nation's
5 third largest paging carrier (based on revenues), that offers a wide array of services to residential
6 and business customers.

7 **B. Sprint Corporation**

8 Sprint is a Kansas corporation that is publicly traded on the New York Stock
9 Exchange under the stock symbols FON and PCS.⁵ The principal offices of Sprint are located at
10 2330 Shawnee Mission Parkway, Westwood, Kansas 77205. Sprint subsidiaries offer local
11 telephone services in 18 states, including Washington, that together serve more than 7.9 million
12 local access lines. United Telephone Company of the Northwest d/b/a Sprint is an incumbent
13 local exchange company ("ILEC") providing retail telecommunications services in the Yakima
14 Valley, Mid-North Columbia, North Kitsap, and East Jefferson County areas of Washington.
15 United serves approximately 89,000 customer access lines in 31 exchanges.

16 Through various operating subsidiaries, Sprint is authorized to offer intrastate
17 interexchange telecommunications ("IXC") services in 50 states and the District of Columbia,
18 including intrastate services within Washington. Sprint Communications Company, Limited
19 Partnership and ASC Telecom, Inc., d/b/a Alterna Telephone provide long distance
20 telecommunications services throughout the state. The Sprint IXC subsidiaries also are
21 authorized by the FCC to provide interstate and international voice and data telecommunications
22

23 ⁵ There are two tracking stocks for Sprint, FON and PCS, both of which are publicly traded on the New
24 York Stock Exchange. In November 1998, Sprint reclassified each of its publicly traded common shares
25 into one share of FON stock and 2 shares of PCS stock. The PCS stock is intended to reflect the
26 performance of Sprint's domestic PCS operations. The FON stock is intended to reflect the performance
of all of Sprint's other operations. Owning FON or PCS shares does not represent a direct legal interest
in the assets and liabilities of the FON and PCS Groups. Rather, shareholders remain invested in Sprint
and continue to vote as a single voting class for Board member elections (other than Class A directors
elected by France Telecom and Deutsche Telekom) and most other company matters.

1 services nationwide. Sprint subsidiaries are also certified as competitive local exchange carriers
2 (“CLECs”).⁶ The Sprint PCS group operates a 100% digital PCS wireless network in the
3 contiguous United States, including the Bremerton, Olympia, Portland-Vancouver, Seattle-
4 Bellevue-Everett, Spokane, and Tacoma MSAs, with licenses to provide nationwide service
5 using a single frequency and a single technology.

6 In addition to offering these telecommunications services, Sprint subsidiaries also
7 have announced plans to utilize the company’s 100% digitally switched domestic U.S.
8 telecommunications network to offer customers a full range of advanced and other information
9 services. Integrated On Demand Network (“ION”) service extends Sprint’s existing advanced
10 network capabilities to the customer and enables Sprint to provide the network infrastructure to
11 meet customers’ broadband network demands for data, Internet, and video.

12 **III. DESIGNATED CONTACTS.**

13 The designated contacts for questions concerning this Application are:

14 For MCI WorldCom:

15 Clyde MacIver, Esq.
16 David Rice, Esq.
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18 4400 Two Union Square
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23 and

24 Ann E. Hopfenbeck, Esq.
25 MCI WorldCom, Inc.
26 707 17th Street, Suite 3600
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⁶ Sprint Communications Company, L.P. was certified as a competitive local exchange carrier in Washington in WUTC Docket No. UT-971048.

1 For Sprint:

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3 Sprint Corporation
4 330 South Valley View Blvd.
5 Las Vegas, NV 89107
6 (702) 244-6541 (Telephone)
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8 and

9 Nancy L. Judy
10 AVP External Affairs
11 Sprint Corporation
12 902 Wasco Street
13 Hood River, OR 97031
14 (541) 387-9265 (Tel)
15 (541) 387-9753 (Fax)

16 **IV. DESCRIPTION OF THE TRANSACTION**

17 The merger will be achieved through a stock-for-stock transaction between the
18 MCI WorldCom and Sprint holding companies, which will not require either company to take on
19 additional debt. Under the Agreement, each share of Sprint's FON common stock will be
20 exchanged for WorldCom group stock valued at \$76.00, subject to a collar. In addition, each
21 share of Sprint's PCS common stock will be exchanged for one share of WorldCom PCS group
22 common stock and 0.1547 shares of WorldCom group common stock.⁷ The terms of the
23 WorldCom PCS group common stock will be virtually identical to those of Sprint's PCS
24 common stock, and will reflect the performance of the WorldCom PCS group. Following the
25 merger, existing MCI WorldCom shareholders will own shares representing a majority of the
26 total voting power of WorldCom capital stock.

⁷ The precise number of WorldCom group common stock shares to be exchanged for Sprint PCS stock will be adjusted as necessary to reflect the MCI WorldCom 3 for 2 stock split which will be distributed on December 30, 1999, the PCS 2-for1 split which will occur on February 4, 2000, and any other stock splits or stock dividends authorized by the respective Boards of Directors of MCI WorldCom and Sprint prior to the effective date of the merger.

1 The merged company will be named WorldCom and will be led by an
2 experienced management team consisting of top executives from both MCI WorldCom and
3 Sprint. Bernard J. Ebbers, president and chief executive officer of MCI WorldCom, will be
4 President and Chief Executive Officer of WorldCom. William T. Esrey, Chairman and Chief
5 Executive Officer of Sprint, will be Chairman of WorldCom. The board of directors of
6 WorldCom will have 16 members, 10 from MCI WorldCom and six from Sprint.

7 Upon merger closing, which is expected to occur mid-2000, the separate
8 corporate existence of Sprint Corporation will cease, and the present wholly-owned subsidiaries
9 of Sprint that hold authorizations from this Commission will survive as wholly-owned
10 subsidiaries of WorldCom.⁸ The merger does not involve any assignment of Sprint's or its
11 subsidiaries' authorizations or licenses, or any change in the licensees that hold such
12 authorizations and licenses, and the same companies will continue to provide service to the
13 public. The only change in ownership will occur at the holding company level. The merger will
14 not impact the wholly owned subsidiaries of MCI WorldCom in any way.

15 This transaction is subject to approval by the Federal Communications
16 Commission ("FCC"), notification to and/or review by other governmental agencies, including
17 the Hart-Scott-Rodino antitrust procedures, other state public utility commissions, the European
18 Union, and Brazilian antitrust authorities.

19 **V. PUBLIC INTEREST CONSIDERATIONS**

20 **A. MCI WorldCom's Qualifications**

21 MCI WorldCom has the technical, managerial, and financial resources to provide
22 telephone service to customers currently served by Sprint as well as offer service to new
23 customers located in those areas in which Sprint currently provides service. MCI WorldCom is a
24 global communications company with operating subsidiaries that have provided domestic
25

26 ⁸ Organizational charts illustrating the current corporate structure of the Petitioners and the effect of the proposed transaction on the Operating Subsidiaries are attached as Exhibit 3.

1 telecommunications services for up to thirty years. In 1998, MCI WorldCom had revenues of
2 approximately \$32 billion (calculated on a pro forma basis combining the revenues of the
3 merged entities.) A copy of MCI WorldCom's most recent SEC Form 10-Q is attached as
4 Exhibit 4. A highly qualified management team, all of whom have extensive backgrounds in
5 telecommunications, operates MCI WorldCom.

6 **B. The Merger Of MCI WorldCom And Sprint Is Procompetitive**
7 **And Will Lead To Substantial Benefits For Washington**
8 **Consumers.**

9 The proposed transfer of control of Sprint's Washington subsidiaries to MCI
10 WorldCom is consistent with the public interest and will benefit Washington consumers. MCI
11 WorldCom and Sprint are among the most entrepreneurial, competitive, innovative, and growth-
12 oriented companies in the telecommunications industry. Their combination will produce a
13 competitor able to offer residential and business customers a comprehensive, competitive
14 alternative for a full spectrum of services, including wireline and wireless local and domestic and
15 international long distance voice, data and other broadband services.

16 **1. MCI WorldCom and Sprint's competitors already have**
17 **consolidated and restructured their companies to strengthen**
18 **their ability to deliver comprehensive service packages.**

19 This merger will bring consumers the next generation of telecommunications
20 services and provide them with an additional choice of supplier for such services. The merger
21 occurs in the context of rapid, dramatic and pervasive changes in telecommunications
22 technology, consumer demands, and regulation, which are collectively causing tremendous
23 changes to the traditional telecommunications marketplace. As the explosive success of
24 local/long distance offerings such as AT&T's all-distance "One Rate"⁹ and the immediate
25 competitive responses of other carriers demonstrate,¹⁰ consumers are very receptive to service

26 ⁹ See AT&T Digital One Rate, www.attws.com/personal/onerate.

¹⁰ See, e.g., US West Wireless Customer Calling Plans
<www.uswestwireless.com/advancedpcs/learn/plans/calling_plans.shtml>; Bell Atlantic Mobility
"DigitalChoice - SingleRate," <www.bam.com/ny_nj/singlerate_promo>; BellSouth Mobility "All In
One" Rate Plan," <www.bellsouthmobility.com/fl_miam_rates.html>.

1 offerings that erase the traditional line between local and long distance. “Packaged” service
2 offerings that include local and long-distance service are now being offered to residential and
3 business customers by wireline carriers such as Ameritech, AT&T, Bell Atlantic, Bell South,
4 GTE, Broadwing, Global Crossing/Frontier, and SBC Communications.¹¹ Both business and
5 residential customers are also increasingly demanding broadband and other data capabilities, and
6 that demand is expected soon to exceed demand for voice service.¹² Indeed, a number of
7 companies are already bundling Internet access services with their wireline and, in many cases
8 wireless, local and long distance telephone service.¹³ As technology moves digital transmission
9 technology into voice communications, the historical lines between voice and data service will
10 erode and user desire for integrated, “one stop shop” suppliers will expand.

11 Thus, MCI WorldCom and Sprint’s largest competitors in the marketplace are
12 actively positioning themselves to offer a full range of integrated local and long distance,
13 wireline and wireless, voice, data and video to consumers to meet this emerging demand.
14 Significantly, U S WEST, the dominant carrier in Washington, already offers local, intraLATA,
15 wireless and Internet services to its customers. *See, e.g., supra* notes 10 and 11. In seeking the
16 WUTC’s approval of their merger, U S WEST and Qwest represented that their merger will, if

17 ¹¹ *See, e.g.,* US West “Small Business Solutions Center,” <www.uswest.com/smallbusiness/>; BellSouth
18 “Small Business Solutions,” www.smlbiz.bellsouth.com; SBC Communications “Simple Solutions,”
19 www.swbell.com/Catalog/simplesolutions; Ameritech “Everything for Business,”
20 www.ameritech.com/products/gbs/special/big_sale.html; Bell Atlantic “PrimePak,”
21 www.bell-atl.com/largebiz/primepak.htm; Bell Atlantic “Bell Atlantic Plus,”
22 www.bell-atl.com/plus/htm/about.htm ; GTE “GTE Unlimited,” www2.gte.com/unlimited; Global
23 Crossing (Frontier Communications) “All-in-One” Invoice,”
24 www.frontiercorp.com/yourbiz/products/billing/all.html; Cincinnati Bell Long Distance “Local,”
25 www.cbld.com/local.htm; BroadWing (Cincinnati Bell/IXC Communications), *The Wall Street Journal*,
26 at B17 (Nov. 15, 1999); AT&T “Personal Network,” www.att.com/home.

¹² *See, e.g.,* US West “Welcome to the Wired, Wired, West – US WEST Launches New Internet Services
That Add Ease-of-Use and Excitement, Take Away Headaches of Online Life,”
<www.uswest.com/news/112299.html>.

¹³ *See, e.g.,* US West “Web Vision,” <www.uswest.com/news/usw_webvision.html>
<http://www.uswest.com/news>; BellSouth “Small Business Solutions,” < www.smlbiz.bellsouth.com >; SBC
Communications “Simple Solutions,” < www.swbell.com/Catalog/simplesolutions >; Bell Atlantic “Bell
Atlantic Plus,” www.bell-atl.com/plus/htm/about.htm; BroadWing (Cincinnati Bell/IXC
Communications), *The Wall Street Journal*, at B17 (Nov. 15, 1999); AT&T “Personal Network,”
www.att.com/home.

1 approved, result in the creation of a powerful competitor capable of providing end-to-end
2 telecommunications services, including voice, data, and integrated services. *See In the Matter of*
3 *the Merger of the Parent Corporations of Qwest Communications Corporation, LCI*
4 *International Telecom Corp., USLD Communications, Inc., Phoenix Networks, Inc., and U S*
5 *WEST Communications, Inc.*, WUTC Docket No. UT-991358, Joint Application
6 (“US WEST/Qwest Joint Application”) at 10-12. In addition, US West and Qwest claim that
7 their merger will create “powerful incentives” for post-merger Qwest Inc. to satisfy Section 271
8 requirements in order to provide in-region interLATA services in Washington. *Id.* at 11.
9 Additionally, SBC/Ameritech has announced it will begin providing local and long-distance
10 service to customers in Seattle as early as the middle of next year.¹⁴

11 The Regional Bell Operating Companies (“RBOCs”) and AT&T have also
12 pursued mergers to round out their complement of services. For example, AT&T, which has a
13 significant presence in Washington, has spent \$100 billion to make its packaging strategy
14 possible by adding the local network assets and Internet and video services of the nation’s largest
15 cable companies to AT&T’s long distance, wireless, and existing local operations.¹⁵ In their
16 application for merger approval in Washington, Bell Atlantic and GTE pointed to the
17 combination of assets, management and personnel as creating a stronger and more competitive
18 entity capable of providing a full spectrum of telecommunications services to residential and
19 business customers. *In Re Application of Bell Atlantic Corporation and GTE Corporation for*
20 *Approval of the GTE Corporation-Bell Atlantic Corporation Merger*, WUTC Docket No. UT-
21 981367, Joint Application (“BA/GTE Joint Application”) at 9-10. Other transactions announced
22
23

24 ¹⁴ See, e.g., *FCC Presses for Local Phone Service, Government Deal with Merging Baby Bells Forces*
25 *Them to Go Local*, The News Tribune, Tacoma, WA, 7/03/1999; *SBC Plans Phone Service in Seattle*,
Seattle Post-Intelligencer, Final, 2/4/1999.

26 ¹⁵ See, e.g., *The Wall Street Journal Interactive Edition, Special Report: Technology and*
Telecommunications, R. Blumenstein, “Package Plan: AT&T sees wireless as the key to its broader
strategy of bundling its services” (Sept. 20, 1999).

1 this year have been explained similarly, such as Global Crossing/Frontier,¹⁶ and Cincinnati
2 Bell/IXC.¹⁷

3 **2. A merger of MCI WorldCom and Sprint is needed if these**
4 **companies are to be able to compete effectively with AT&T**
5 **and the RBOCs in providing comprehensive service packages**
6 **to residential and business customers.**

7 MCI WorldCom and Sprint are joining forces to confront the same market
8 challenges that others have already begun to address.¹⁸ MCI WorldCom and Sprint cannot sit
9 idle while their mass-market competitors, particularly the Bell Companies and AT&T, prepare to
10 offer fully integrated services that erase old service distinctions. MCI WorldCom and Sprint
11 must also take the necessary steps to develop technology and related integrated products and
12 services so that the efforts of the Bell Companies and AT&T will not outpace them in the
13 marketplace. By combining their complementary assets and their technical and entrepreneurial
14 skills, MCI WorldCom and Sprint will be far better positioned to offer Washington consumers an
15 alternative to the integrated services that the Bell Companies and AT&T will offer. The
16 combination will allow the new WorldCom to offer residential and business users a package of
17 services that includes local, long distance, Internet access/data services, and wireless services as

18 ¹⁶ See, e.g., *Global and Frontier Announce \$11.2 Billion Merger*,
19 <www.globalcrossing.com/pressreleases/pr_031799.htm> (Mar. 17, 1999).

20 ¹⁷ See, e.g., *FCC Public Notice*, DA-99-2300, “Wireless Telecommunications Bureau, Common Carrier
21 Bureau, and International Bureau Grant Consent for Transfer of Control of Licenses of IXC
22 Communications, Inc. to Cincinnati Bell, Inc.” (released Aug. 4, 1999) (According to the applicants in
23 that proceeding, their merger would result in “an integrated communications company capable of offering
24 bundled local, long distance, international, fast packet, Internet and other advanced services – at
25 competitive prices – to customers across the country.”).

26 ¹⁸ As Bernard J. Ebbers, President and CEO of MCI WorldCom, testified before the Senate Judiciary
Committee, “Faced with these trends, MCI WorldCom had a tough choice to make. We could have left
residential customers to the Bells and big cable, but that would have been bad for those consumers and
bad for us. We could have merged with a Bell in order to gain the advantage of controlling that critical
last mile of copper wire into every home. Or, we could get stronger, and even more competitive. You
know what choice we made. MCI WorldCom and Sprint decided to join forces as the single best hope for
a strong and effective alternative to the mega-bells and the emerging AT&T cable monopoly.” Statement
of Bernard J. Ebbers, President and Chief Executive Officer, MCI WorldCom, Before the Committee on
the Judiciary, United States Senate, November 4, 1999.

1 an alternative to the full range of integrated telecommunications products and services provided
2 by the RBOCs and AT&T.

3 **3. The merger will promote MCI WorldCom and Sprint's ability**
4 **to enter local exchange and broadband communications**
5 **markets.**

6 MCI WorldCom's and Sprint's assets are remarkably complementary and
7 therefore well suited to meet the new competitive challenges. While Sprint's local telephone
8 companies serve principally rural and suburban communities throughout 18 states, MCI
9 WorldCom addresses local business needs in most of America's major metropolitan areas,
10 including Seattle. The merger will expand the reach of both companies into local markets and
11 the combination of WorldCom's local networks and Sprint's expertise will enable the new
12 WorldCom to compete even more effectively in new local markets.

13 The Sprint local telephone companies provide service to over 7.9 million access
14 lines within 18 states nationwide, including Washington. About 5.6 million of them are
15 residential access lines; the remaining 2.3 million serve businesses, and Sprint has garnered
16 significant expertise in the management and operation of local exchange facilities and services
17 through these systems. MCI WorldCom also has extensive local exchange facilities nationwide,
18 providing local service in more than 100 markets, including parts of Washington. In
19 combination, the new WorldCom will have additional scale and scope and greater expertise
20 available to permit it to make greater inroads into the local markets and to challenge the
21 incumbents, including the telecommunications giants formed through the SBC/Pacific
22 Bell/Nevada Bell/SNET/Ameritech, Bell Atlantic/NYNEX/GTE, and AT&T/TCI/MediaOne
23 combinations.

24 Sprint brings to the new company the experience necessary to enter local markets
25 on a national basis. The Federal Communication Commission ("FCC") has recognized that
26 ILEC expertise aids substantially in launching and sustaining competitive local entry in other
markets. In *Bell Atlantic/NYNEX*, the FCC noted that ILECs possess advantages not possessed

1 by other market participants, especially in serving mass-market customers of local exchange and
2 local exchange access services. It also described the "particular expertise" ILECs bring to the
3 interconnection process because of their "intimate knowledge of local telephone operations."¹⁹
4 In *SBC/Ameritech*, the FCC found that each of the merger parties there could be a significant
5 market participant in out-of-region local markets because:

6 [E]ach has the operational capabilities necessary to enter out-of-
7 region markets. In general, each has the requisite access to the
8 necessary facilities, "know-how," and operational infrastructure
9 such as customer care, billing, and related systems that are
10 essential to the provision of local exchange services to a broad
11 base of residential and business customers. These systems are
12 required whether entry occurs through resale, use of UNEs, or
13 some other form of facilities-based entry. SBC and Ameritech also
14 possess special expertise as incumbent LECs that each could bring
15 to the interconnection negotiation and arbitration process when
16 entering out-of-region markets because of their intimate
17 knowledge of local telephone operations and experience in
18 negotiating interconnection agreements with new entrants.

13 *Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control*,
14 CC Dkt. No. 98-141, 1999 FCC LEXIS 5069, ¶ 84 (DA 99-279) (rel. Oct. 8, 1999)
15 ("*SBC/Ameritech Order*") (footnotes omitted) (citing to numerous comments filed by, *inter alia*,
16 AT&T, State Attorneys General Ex Parte, and numerous CLECs).

17 MCI WorldCom's experience in offering local service has revealed that customer
18 care for long distance customers is quite different from customer care for local customers.
19 Learning how to properly address customer service calls and training customer care
20 representatives to do so is one of the most difficult tasks non-ILECs have to master in entering
21 local markets. Sprint's experience in local telephone operations will greatly enhance the
22 combined company's ability to serve local customers and thus compete more effectively in local
23 markets nationwide. The merger will thus significantly accelerate WorldCom's ability to enter
24 local markets throughout the country.

25 _____
26 ¹⁹ *Applications of NYNEX Corp. and Bell Atlantic Corp. for Consent to Transfer Control*, 12 FCC Rcd.
19985, ¶ 107 (1997) ("*BA/NYNEX Order*").

1 For consumers' mobile communications needs, MCI WorldCom brings paging to
2 the merger; Sprint contributes its nationwide state-of-the-art digital Personal Communications
3 Service ("Sprint PCS"). In addition, MCI WorldCom holds substantial international investments
4 in 65 countries: when coupled with the two companies' domestic assets, these investments will
5 establish a U.S. company as a stronger telecommunications player in the global marketplace.

6 Broadband access is clearly becoming an increasingly critical factor in the new
7 WorldCom's ability to compete with the Bell Companies' and AT&T's service bundles. The
8 merged entity will be able to provide a wider range of broadband alternatives than either
9 company would be positioned to accomplish alone. First, the combination of MCI WorldCom's
10 CLEC facilities and collocation arrangements, the Sprint ION package of broadband services,
11 and both companies' multichannel multipoint distribution services ("MMDS") capabilities will
12 provide significant benefits to consumers. MCI WorldCom is collocated in almost 500
13 incumbent carrier central offices nationwide and expects to be collocated in more than 125
14 additional central offices by the end of 2000. This deployment will advance Sprint's broadband
15 objectives and will allow Sprint to avoid its own collocation arrangements in many instances.
16 By using MCI WorldCom's existing local exchange facilities in markets where Sprint does not
17 yet provide service, Sprint will be able to deploy its Sprint ION package of advanced broadband
18 services to businesses and residential users with innovations such as dynamic managed
19 bandwidth more rapidly.

20 Wireless broadband solutions are also a key part of the mix of broadband services
21 the new WorldCom will be able to provide. Both MCI WorldCom and Sprint have recognized
22 for some time that they will need broadband access to the home on a national basis to compete in
23 the long term. Due to difficulties in obtaining access to local and cable bottleneck facilities, both
24 MCI WorldCom and Sprint have sought alternatives to reach end users that do not depend upon
25 the cooperation of these incumbents. Each company independently turned to fixed wireless –
26 MMDS – as a major aspect of that solution. When the complementary licensed coverage areas

1 of both companies are combined, their MMDS “footprint” will cover a large geographic area,
2 including Seattle/Tacoma, Bellingham, Spokane and Yakima in the state of Washington.²⁰ With
3 the combination of MCI WorldCom’s local facilities, Sprint’s ION services, and their combined
4 MMDS service areas, the new WorldCom will be able to provide a variety of broadband services
5 to consumers.

6 In addition to the complementary nature of the assets, the Petitioners anticipate
7 certain synergies and efficiencies from the merger that will enable the new WorldCom to make
8 the considerable investment needed to expand local and broadband services as discussed above.
9 These expected synergies and efficiencies, which arise primarily on the cost side and solely with
10 respect to long distance (including access), CLEC, and wireless,²¹ are expected as a result of:
11 (1) substantial efficiencies in both switched and special access as traffic is aggregated to direct
12 trunks and to MCI WorldCom local facilities; (2) efficiencies as Sprint traffic is moved to MCI
13 WorldCom international facilities; (3) efficiencies to Sprint’s ION service through the use of
14 MCI WorldCom local facilities; (4) scale efficiencies in operator products such as
15 telecommunications relay services, operator services, and directory assistance services;
16 (5) efficiencies in sales, general and administrative expenses; and (6) efficiencies in Sprint
17 capital expenditures for long distance, ION, and PCS backhaul facilities no longer necessary in
18 light of existing MCI WorldCom facilities.²²

19 MCI WorldCom and Sprint, both born outside the Bell System and raised as
20 competitors to large incumbents, share an entrepreneurial spirit that has contributed to rapid
21 growth and success. Dedicated to opening markets to competition, both MCI WorldCom and
22 Sprint have focused on delivering benefits to customers: lower prices, innovation, and higher
23

24 ²⁰ A map illustrating Sprint’s and MCI WorldCom’s protected service areas and basic trading areas for
MMDS is attached as Exhibit 5.

25 ²¹ Cost savings have not been projected for Sprint’s existing local telephone company operations, as these
operations are generally discrete from other operations.

26 ²² The parties note that the synergies analysis performed for their boards of directors and shareholders
were developed on a company-wide basis.

1 quality services. The collective experience of the Petitioners, when combined with their
2 complementary assets and entrepreneurial heritage, will create an aggressive, all-service
3 telecommunications provider and will accelerate the deployment of new, innovative, and
4 advanced services to consumers, residential and business alike.

5 **C. MCI WorldCom's Acquisition of Sprint's Washington Local and**
6 **Long-Distance Operating Subsidiaries is Consistent with the**
7 **Public Interest.**

8 MCI WorldCom's acquisition of Sprint's local and long distance service
9 providers in Washington is fully consistent with the public interest. Applicants show below that
10 there will be no adverse impact on Sprint's ILEC operations in Washington or the robustly
11 competitive long distance marketplace as a result of this merger and, as discussed above, the
12 merger of MCI WorldCom and Sprint will create a more effective CLEC than either company
13 could achieve independently.

14 The goal of becoming an effective competitor in the local market, including
15 broadband access, is a critical business strategy for both companies. Both companies have
16 independently recognized that, to compete in the emerging telecommunications marketplace --
17 characterized by rapid changes in technology and advances in the type and scope of services
18 available -- it is essential to be able to provide customers local telephone service. This is not
19 simply because of a need to disengage from dependence on their competitors' facilities and
20 services nor because the price that both companies pay for local facilities represent a substantial
21 portion of their long distance costs. Rather, the commitment to expanding their ability to offer
22 competitive local services arises also from the fact that both companies firmly believe -- and the
23 current market dynamics are proving out -- that the traditional distinction between local and long
24 distance services is disappearing as "all-distance services" or "bundles" of local and long
25 distance services are becoming more readily available. Accordingly, both companies risk losing
26 the hard-won gains they have made in forging their competitive service offerings to date unless
they position themselves to compete to provide the packages that consumers will increasingly be

1 offered – and come to demand – as the provision of local service becomes more competitive, as
2 the Bell companies gain interLATA authority, and as wireless usage increases.

3 **1. Sprint Local Exchange Operations**

4 Importantly, the proposed merger will make available to the new WorldCom an
5 aggregation of the assets, expertise, scale and scope needed to expand its local and broadband
6 services without any adverse impact on the expansion plans and capital commitments of Sprint’s
7 existing local telephone company operations. There will be no change in corporate structure of
8 the Washington operating subsidiaries at this time other than the substitution of WorldCom as
9 the ultimate parent corporation. Because Sprint stock will be converted into WorldCom stock,
10 all shareholders of Sprint at the time of the merger will retain their stock in the combined entity
11 as of the closing date and for as long as they choose to hold it.

12 The proposed merger will have no adverse impact on United or its ratepayers. As
13 noted above, none of the expected synergies and efficiencies from this transaction is expected
14 from Sprint’s local division, as these operations are generally discrete from other operations.

15 Sprint’s continuing participation in areas of emerging technology within and
16 outside Washington (both regulated and unregulated) have helped it make better choices for
17 investment in both local and non-local facilities. Its expanded presence has, over time, enabled
18 Sprint to anticipate technology changes, build for an evolving marketplace, and avoid
19 unproductive investment. Such activity assures that customers will not shoulder unnecessary
20 costs or rate increases. The combination with MCI WorldCom promises to continue this trend of
21 prudent investment.

22 MCI WorldCom and Sprint are making a number of commitments to assure that
23 there will be no negative impact on existing local services. First, the operations of United will be
24 unchanged by the merger. Second, United will continue to comply with all Washington statutes
25 and applicable regulatory requirements. Third, the combined entity will maintain its investment
26 in the network and work force in Washington at levels that are required to continue to provide

1 high quality service to customers, both business and residential. These commitments will ensure
2 that Sprint's Washington local exchange customers will experience no adverse changes from the
3 merger.

4 **2. MCI WorldCom Local Exchange Operations**

5 The merger will also promote the ability of the MCI WorldCom CLECs to
6 compete with incumbent local telephone companies and the integrated service offerings of
7 AT&T. *First*, by using MCI WorldCom's local facilities to transport and terminate Sprint's long
8 distance traffic in addition to that of MCI WorldCom, MCI WorldCom's facilities will be more
9 fully utilized, thereby increasing efficiency and reducing costs for switched access, special
10 access, and local services. *Second*, aggregating Sprint's and MCI WorldCom's local exchange
11 and exchange access traffic will economically justify construction of additional local facilities
12 more quickly. *Third*, use of MCI WorldCom's local facilities and collocation arrangements will
13 expand the availability of the Sprint ION service by providing the necessary Broadband
14 Metropolitan Area Network facilities for ION's deployment and by sharing collocation cages
15 necessary for the DSL component of Sprint ION. *Fourth*, the combined company will be able to
16 sell local services to an increased customer base, reducing customer acquisition costs. *Fifth*, the
17 broader scope of the combined company's MMDS licenses and its improved ability to develop
18 and deploy such systems has the potential to reduce future end office collocation requirements to
19 provide DSL services. In these significant ways, the merger will reduce Sprint's current reliance
20 on ILEC facilities and will accelerate the ability of the merged company to bring not only
21 competitive local service, but also advanced services like Sprint ION and MMDS to market.

22 **3. Long Distance Competition.**

23 Competition in the long-distance industry is a proven success story – prices have
24 continually declined, while supply and demand are ever increasing. Certainly, as with any other
25 merger of two companies who offer some of their services in the same market, there will be
26 some increased concentration from the merger. However, the combined market share for the two

1 companies is still well below that of AT&T both nationally and in Washington.²³ Moreover, in a
2 dynamic market such as telecommunications, a static market share number should not be taken
3 out of context. First, the long distance market has for many years been recognized as robustly
4 competitive. The dramatic price decreases for traditional long distance services in recent months
5 bear witness to this fact. Moreover, the amounts of new long distance capacity continue to grow
6 exponentially as new and existing carriers such as GTE, Qwest, Global Crossing/Frontier,
7 Williams Communications, IXC, Level 3 Communications, Cable and Wireless, MetroMedia
8 Fiber Networks and others deploy new fiber and expand into new markets.²⁴ Moreover,
9 improved technology, such as wavelength division multiplexing and dense wave division
10 multiplexing, vastly increase the capacity of existing and new fiber systems.

11 Second, Bell Company entry into long distance is nearing. As noted above, in
12 support of their application for approval of merger, US WEST and Qwest have represented that
13 their merger will provide additional incentive to obtain Section 271 approval for Qwest's re-
14 entry into the in-region long-distance market. See, discussion at p. 11. Such entry, by Bell
15 companies' own estimates, will produce immediate effects on market share statistics,²⁵ and the
16 FCC has given credence to these predictions:

17 ²³ Excluding local exchange carrier toll service revenues, the most recent FCC reports indicate that MCI
18 WorldCom's share of the national long distance market based on total operating revenues is 25.6% and
19 that Sprint's share is 10.5%, while AT&T's share is 43.1%. *Trends in Telephone Service, Industry*
20 *Analysis Division of the Common Carrier Bureau of the Federal Communications Commission*, at
21 Table 11.3, www.fcc.gov/ccb/stats (Sept. 1999) ("*FCC Trend Report*"). If local exchange carrier toll
22 revenues are included, the FCC reports that the market shares are even lower, with MCI WorldCom
23 having 23% of the market, and Sprint having 9.4%, while AT&T's share is 38.7%. *Id.* at Table 11.4. The
24 Parties' long distance market share in Washington is also below that of AT&T. Reports issued by the
25 FCC in 1999 indicate that the MCI WorldCom and Sprint share of 1998 residential toll revenue in
26 Washington was 19.1% and 4.8%, respectively, while AT&T had a share of 59.3%. *FCC Trend Report* at
Table 11.5, *Industry Analysis Division of the Common Carrier Bureau of the Federal Communications*
Commission, at Table 4.1, www.fcc.gov/ccb/stats (Mar. 1999). (The FCC reports do not provide
comparable information regarding market shares for business revenues and access lines.)

²⁴ Between 1996 and 1998, for example, long distance carrier fiber system route miles increased almost
50%, from 106,205 to 159,779. See FCC Fiber Deployment Update, End of Year 1998, *Industry Analysis*
Division of the Common Carrier Bureau of the Federal Communications Commission, at Table 1,
www.fcc.gov/ccb/stats (Sept. 1999).

²⁵ For example, in its recent filing for Section 271 authority in New York, Bell Atlantic estimates that it
will acquire 26% market share post entry. See *Application by New York Telephone Company (d/b/a Bell*

1 [G]iven the BOCs' strong brand recognition and other significant
2 advantages from incumbency, advantages that will particularly
3 resound in the broad-based provision of bundled local and long
4 distance services, we expect that the BOCs will be formidable
5 competitors in the long distance market and, in particular, in the
6 market for bundled local and long distance services.²⁶

7 Indeed, Southern New England Telephone Company has captured as much as 56% of
8 Connecticut customers' long distance service within the first 3 years of its entry,²⁷ thereby
9 achieving a greater share than the combined share of MCI WorldCom and Sprint after more than
10 20 years of intensive competitive effort.

11 Third, competition has increased, and long distance rates have continued to fall,
12 even as long distance carriers have merged. Since 1995, to name just a few, Teleport
13 Communications Group merged with ACC Communications, and was in turn acquired by
14 AT&T; AT&T merged with Alascom (and more recently with major cable companies such as
15 TCI and soon with MediaOne); Frontier Communications acquired Allnet Communications
16 Services, Inc., American Sharecom, Schneider Communications, and West Coast
17 Telecommunications and this year Frontier was in turn acquired by Global Crossing Ltd.; MCI
18 merged with Telecom*USA and was in turn acquired by WorldCom; LCI International Telecom
19 Corp. merged with USLD Communications, and LCI was in turn acquired by Qwest
20 Communications, which has also entered into an agreement to acquire U S WEST.

21 *Atlantic - New York*), *Bell Atlantic Communications, Inc., NYNEX Long Distance Company, and Bell*
22 *Atlantic Global Networks, Inc. for Authorization to Provide In-Region, InterLATA Services in New York,*
23 *CC Dkt. No. 99-295, Declaration of Paul W. MacAvoy, at 26 (Sept. 29, 1999); see also*
24 *Telecommunications Reports, "BOCs' Long Distance Desires Aren't Dampened by Price War" at 6*
25 *(Sept. 6, 1999) (Bell Atlantic executives estimate that it will capture 20% of the long distance market in*
26 *region within two years). Other Bell companies have made similar predictions. SBC posits it will gain a*
10-15% share of the market within 18 months of entry. See Application of SBC Communications, Inc. for
Provision of In-Region, InterLATA Services in Oklahoma, CC Dkt. No. 97-121, Affidavit of Richard L.
Schmalensee at 6 (Apr. 7, 1997). Ameritech Michigan has estimated a share of 25-30% for Ameritech.
See Application of Ameritech Michigan to Provide In-Region, InterLATA Services in Michigan, CC Dkt.
No. 97-137, Joint Affidavit of Robert Crandall & Leonard Waverman at 46 (Dec. 27, 1996).

²⁶ *Application of Ameritech Michigan to Provide In-Region, InterLATA Services in Michigan, 12 FCC*
Rcd. 20543, ¶ 15 (1997).

²⁷ *Cambridge Telecom Report, 1999 WL 8103737, Jul. 26, 1999.*

1 Notwithstanding this trend toward mergers and acquisitions, long distance rates have continued
2 inexorably to fall. The underlying reason is that all of these mergers have occurred during a
3 period that has been and continues to be marked by substantial increased capacity and new entry.

4 **VI. CONCLUSION**

5 The merger will allow MCI WorldCom and Sprint to bring the consumers of
6 Washington the broader range of telecommunications services now being increasingly demanded
7 by users. Simply put, the two companies together will be able to do much more for consumers
8 than they could alone. The Applicants therefore ask that the Commission permit them to bring
9 the expected competitive benefits to market quickly by approving their petition as expeditiously
10 as possible.

11 For the reasons stated, the Applicants respectfully request that the Commission
12 approve the transfer of control of Sprint's Washington Operating Subsidiaries to MCI
13 WorldCom. In order that the benefits of this merger can begin to be realized during the second
14 half of 2000, the Applicants respectfully request that the Commission process this request
15 expeditiously such that a decision can be reached in May 2000 and the Applicants can therefore
16 be in a position to close the transaction early in the third quarter of the year.

1 DATED this 21st day of December, 1999.

2 Respectfully submitted,

3 MCI WORLDCOM, INC.

4 I certify under penalty of perjury that the foregoing is true
5 and correct, to the best of my information and belief.

6
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SPRINT CORPORATION

I certify under penalty of perjury that the foregoing is true and correct, to the best of my information and belief.

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