

**BEFORE THE WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**IN THE MATTER OF THE CONTINUED )  
COSTING AND PRICING OF UNBUNDLED ) DOCKET NO. UT-003013  
NETWORK ELEMENTS, TRANSPORT ) PART B  
AND TERMINATION )**

**TESTIMONY OF PAUL G. BOBECZKO  
ON BEHALF OF WORLDCOM**

**December 20, 2000**

1 **Q. PLEASE STATE YOUR NAME AND TITLE.**

2 A. My name is Paul Bobeczko. I am currently the Director of Local Business  
3 Development for WorldCom's Mass Markets Division. My business address is  
4 701 S. 12<sup>th</sup> Street, Arlington, VA 22202.

5  
6 **Q. PLEASE DESCRIBE YOUR BACKGROUND AND PROFESSIONAL  
7 EXPERIENCE.**

8 A. I have been employed by WorldCom for almost nine years. During that time, I  
9 have held several finance positions within the corporate office as well as within  
10 the Mass Markets division. My major responsibilities, which I had from 1992  
11 through 1996 included, expense planning, revenue planning, and traffic/customer  
12 forecasting for the long distance business.

13  
14 In January of 1997, I moved into Local Business Development as the manager of  
15 Business Analysis. For the last four years, I have been solely focused on the  
16 residential local business. In March of this year, I was promoted to Director and  
17 assumed the responsibilities outlined below.

18  
19 As Director of Local Business Development, I am responsible for developing and  
20 executing a profitable business entry strategy for Mass Market's residential local  
21 product. Specifically, I manage the following functions: a) Business Analysis;  
22 b) Operational and Capital Planning; c) Product Pricing; d) Marketing Analysis;

1 e) Competitive Analysis; f) Financial Operations; g) Provisioning Operations;  
2 and h) New Market Analysis.

3

4 In addition to these responsibilities, I represent WorldCom before Public Utility  
5 Commissions, the Department of Justice, and the FCC in support of WorldCom's  
6 efforts to obtain UNE-P pricing at rates that are cost-based and promote wide  
7 spread competition in the residential market. In this capacity, I present formal  
8 economic analyses as well as file declarations in conjunction with pricing dockets,  
9 Section 271 applications, etc.

10

11 Prior to my tenure at WorldCom, I worked for Evered-Bardon, plc as a Financial  
12 Analyst. I have a Bachelor of Arts degree in Economics and Anthropology from  
13 Dickinson College, and an MBA from the University of Pittsburgh's Katz  
14 Graduate School of Business.

15

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my testimony is to explain why local service is critical to  
18 WorldCom's plans for the residential market and where WorldCom stands today  
19 in competing to provide both local and long distance residential services. I will  
20 also show why Qwest's proposed recurring and nonrecurring rates for UNE-P will  
21 prohibit profitable residential local market entry for WorldCom in the State of  
22 Washington.

23

1 **Q. WHAT ARE WORLDCOM'S PLANS TO COMPETE IN THE**  
2 **RESIDENTIAL LOCAL EXCHANGE MARKETS?**

3 A. A strong local presence is critical to WorldCom's competitive success in  
4 providing service to residential customers. Many residential customers are  
5 seeking fully integrated telecommunications services, from local to long distance  
6 to Internet access, from a single provider such as WorldCom. Customers also  
7 seek to realize the benefits of lower cost, greater choice and product innovation  
8 that was the promise of the Telecommunications Act of 1996. WorldCom wants  
9 to be a fully integrated telecommunications provider, able to fulfill all of its  
10 customers' telecommunications needs. The ability to offer a package of services  
11 that includes local exchange service, is critical to this plan. WorldCom also seeks  
12 profitable revenue growth, and extending its mass market long distance line of  
13 business into local service is a natural and attractive way to obtain that growth,  
14 provided it can do so at a reasonable cost.

15

16 **Q. WHAT HAS BEEN WORLDCOM'S PROGRESS IN ENTERING**  
17 **RESIDENTIAL LOCAL MARKETS TO DATE?**

18 A. Consistent with its goal of becoming a fully integrated telecommunications  
19 service provider, WorldCom has devoted substantial resources and effort to  
20 entering the local residential markets in New York, Texas, Pennsylvania, and  
21 quite recently Illinois and Michigan. In each of these states, WorldCom leases the  
22 Unbundled Network Element Platform ("UNE-P") from the ILEC and uses those  
23 facilities to provide a unique product to residential consumers. The recurring and  
24 nonrecurring rates WorldCom is required to pay for UNE-P in these states permit  
25 WorldCom to profitably offer its product to large numbers of consumers.

26

1 **Q. IS THE STATE OF WASHINGTON CURRENTLY ON WORLDCOM'S**  
2 **LIST OF STATES TARGETED FOR LOCAL RESIDENTIAL MARKET**  
3 **ENTRY?**

4 A. No. As I will explain in more detail below, Washington is not yet on  
5 WorldCom's list of states targeted for local residential market entry. Among the  
6 reasons, WorldCom cannot target Washington is unworkable UNE pricing.

7  
8 **Q. WHY IS APPROPRIATE PRICING FOR UNE-P SO IMPORTANT TO**  
9 **WORLDCOM'S LOCAL MARKET ENTRY PLANS?**

10 A. UNE-P, the combination of all unbundled elements necessary to provide local  
11 service, is the only service delivery vehicle that WorldCom uses to offer local  
12 residential service throughout the country, and it is the only service delivery  
13 vehicle that WorldCom currently views as potentially viable.<sup>1</sup> The UNE-P mode  
14 of entry provides WorldCom with greater flexibility to offer innovative products  
15 to consumers than resale, and permits much faster and more pervasive market  
16 entry than a pure facilities-based offering. Moreover, when UNE prices are set at  
17 cost-based rates, they generally allow CLECs to compete profitably with the  
18 ILECs. WorldCom began using UNE-P to offer residential service in New York  
19 beginning late in 1998, and entered local markets using UNE-P in Texas,  
20 Pennsylvania, Illinois, and Michigan in 2000. In contrast, our experience with the  
21 Act's resale discount is that it does not allow for profitable entry. If barriers to  
22 entry such as anti-competitive pricing and discriminatory OSS are eliminated,  
23 WorldCom will use UNE-P to enter residential markets throughout the country.

---

<sup>1</sup>MCI initially entered several markets using resold services, which was an experience that was both unsatisfactory and unprofitable. WorldCom still has a small base of resale customers left over from this initial effort.

1

2 **Q. HAS WORLDCOM'S RESIDENTIAL LOCAL ENTRY STRATEGY**

3 **PROVEN SUCCESSFUL?**

4 A. WorldCom's experience with UNE-P-based service demonstrates just how eager  
5 customers are for competition. Since entering the market in New York with its  
6 UNE-platform based offering, WorldCom has sold hundreds of thousands of  
7 residential lines. We have also achieved success in Texas despite obstacles to  
8 effective competition. Since WorldCom's market launch in April 2000, its  
9 customer base has grown to well over 100,000.

10

11 **Q. WHAT HAVE BEEN THE BENEFITS TO RESIDENTIAL CONSUMERS**  
12 **RESULTING FROM WORLDCOM'S ENTRY INTO LOCAL MARKETS.**

13 A. Competition from CLECs such as WorldCom is bringing savings and new choices  
14 to consumers. Individual savings vary with usage and customer location, but to  
15 take just one example: In New York, WorldCom's flat rate local residential  
16 service with unlimited calling is \$19.99 per month, whereas according to  
17 Verizon's website, Verizon's best unlimited local calling plan is \$33.95 per  
18 month.<sup>2</sup> Local residential customers who want unlimited calling without vertical  
19 features can thus save over 40 percent off of Verizon's pricing by choosing  
20 WorldCom.

21

22 In addition, the majority of WorldCom's new residential local customers have  
23 chosen WorldCom as their carrier for local, intraLATA toll, and long distance

---

<sup>2</sup>Verizon's "Standard Unlimited Local Package" also includes 3 vertical features. See <http://www.bellatlantic.com/foryourhome/NY/Products/LPX-02/index.html> (downloaded Oct. 5, 2000). Also, Verizon may have other unlimited calling plans that are not promoted on the website.

1 services, increasing their convenience and savings. In states where WorldCom is  
2 now able to offer local service, customers who choose WorldCom to carry  
3 intraLATA toll as well as long distance receive the same low rates for both,  
4 minimizing confusion. In addition to savings on local rates, our new local  
5 customers also receive the benefit of WorldCom's lowest long distance rates.

6  
7 . In sum, where UNE-P pricing is available at reasonable, cost-based rates,  
8 WorldCom is competing vigorously for residential local customers and offering  
9 significant benefits to consumers.

10

11 **Q. WHAT ARE WORLDCOM'S PLANS WITH RESPECT TO LOCAL**  
12 **MARKETS IN THE STATE OF WASHINGTON?**

13 A. If barriers to entry were removed, WorldCom would become an active participant  
14 in the Washington residential local market. Indeed, Washington is a state that  
15 otherwise would be among the highest on WorldCom's entry list within Qwest's  
16 region. WorldCom has \*\*\*\*\*<sup>3</sup> long distance customers in the state that  
17 constitute a natural base from which to develop a local business. Once Qwest's  
18 OSS have been demonstrated to be in compliance with Qwest's obligations under  
19 the Act, WorldCom will be able to take those steps necessary to refine its own  
20 OSS to make local entry possible within Qwest's region.

21

22 But notwithstanding the promise of the Washington local market and workable  
23 OSS, WorldCom will not be able to enter the Washington residential market  
24 under current pricing conditions.

25

---

<sup>3</sup> See Confidential Exhibit PGB 2.

1 **Q. IS THERE EVIDENCE THAT OTHER CARRIERS PLAN TO ENTER**  
2 **LOCAL RESIDENTIAL MARKETS IN WASHINGTON USING UNE-P?**

3 A. No. To the contrary, recent actions by other carriers suggest that the only markets  
4 that carriers will target using UNE-P are business markets. For example,  
5 Eschelon has recently entered into a region-wide agreement with Qwest to use the  
6 UNE platform to provide service to business customers. Furthermore, while  
7 Qwest has only recently made UNE-P available to CLECs within its region, the  
8 fact that as of June 30, 1999, CLECs had leased only 2000 unbundled loops (.1  
9 percent of Qwest's total switched lines)<sup>4</sup> in the Washington when the rate was  
10 only \$11.33 suggests that there is little interest in using UNEs to enter local  
11 markets in the State of Washington.

12  
13 **Q. WHAT PREVENTS WORLDCOM FROM BEING ABLE TO ENTER**  
14 **WASHINGTON'S RESIDENTIAL LOCAL MARKET USING UNE-P?**

15 A. WorldCom cannot use UNE-P to enter the residential local market in Washington  
16 because Qwest's proposed recurring and nonrecurring rates for UNE-P make  
17 entry unprofitable. Indeed, Qwest's proposed UNE-P recurring and nonrecurring  
18 rates are so high relative to the prices of its retail product offerings, that if a  
19 CLEC sold local service to a residential customer for the same price as Qwest, it  
20 would not even make enough money to pay for the cost of the elements it leases  
21 to provide that service. That is to say, before a carrier even considers its own  
22 internal costs or any profit, it is already deeply under water in Washington. The  
23 table in Confidential Exhibit PGB-3, vividly illustrates the situation faced by any  
24 carrier that would provide residential UNE-P service in Washington. The table  
25 shows the monthly revenue a carrier would receive if it provided basic residential

---

<sup>4</sup> FCC's Trend In Telephone Service, March 2000, Table 9.4.



1 service with one feature at the same retail price Qwest charges, and then subtracts  
2 from that the “telco” costs, that is, the costs of the leased unbundled network  
3 elements. What the table shows is that a carrier in Washington would lose on  
4 average \$1.84 each month for each line it served, even before it considered its  
5 own costs. Those costs, including marketing costs, customer service, costs  
6 associated with customers who don’t pay their bills, and other operational costs,  
7 typically exceed \$10/month/line for competing carriers, and when added to the  
8 telco costs, show that UNE service in Washington is a losing proposition of  
9 staggering proportion. With deaveraging, there is one Washington rate zone that  
10 would yield a positive gross margin, but that margin is insufficient to cover a  
11 CLEC’s internal costs. Furthermore, that zone has an insufficient number of  
12 potential customers – less than 6% percent of Qwest’s access lines are included in  
13 that zone and it is reasonable to believe that a significant percent of those are  
14 business lines as opposed to residential lines. See Confidential Exhibit PGB-3, p.  
15 2. WorldCom has not completed a final analysis of the impact of deaveraging,  
16 but believes that when the distribution of residential lines only is calculated, the  
17 expected average loop rate will be much higher than \$18.16.

18

19 **Q. WHAT IS THE PRINCIPAL CAUSE OF THE PRICING CONUNDRUM**  
20 **WORLD COM FACES IN THE STATE OF WASHINGTON?**

21 A. The principal cause of this anti-competitive pricing is the high unbundled loop  
22 rate in the State of Washington. To a lesser extent, the unbundled switching and  
23 transport rates also contribute to the price squeeze. Qwest’s proposed recurring  
24 rate for UNE-P equals the sum of the elements that make up the platform. The  
25 most significant component that makes up the platform is the UNE loop.

26

1 **Q. THE UNE LOOP RATE IS NOT AT ISSUE IN THIS PROCEEDING AND**  
2 **WAS ONLY RECENTLY FINALLY DETERMINED BY THIS**  
3 **COMMISSION. WHY ARE YOU PRESENTING THIS TESTIMONY AT**  
4 **THIS TIME?**

5 A. This is first time this Commission has ever considered pricing proposals for UNE-  
6 P. Thus, it is the first opportunity for the Commission to fully appreciate the  
7 ramifications of both past and pending pricing decisions<sup>5</sup> for competition in the  
8 local residential market.

9  
10 **Q. WHAT IS WORLDCOM'S RECOMMENDATION ON HOW TO**  
11 **ADDRESS THE PRICING PROBLEM THAT IT HAS RAISED HERE?**

12 A. WorldCom believes that the only way to remedy the UNE-P pricing conundrum  
13 in Washington is to open a docket to re-examine the unbundled loop rate. While  
14 it is true that Docket No. UT-960369 has only recently concluded, the cost models  
15 that formed the basis for the Commission's decisions in that proceeding have  
16 undergone substantial revision and refinement since they were introduced and  
17 costs were determined in Washington. Further, since costs were determined in  
18 Docket UT-960369, the FCC has developed its own synthesis cost model. Given  
19 the substantial changes in cost modeling and the glaring disparity between UNE  
20 costs and retail prices, WorldCom believes it would be prudent for the  
21 Commission to seriously consider reexamining the UNE loop rate as soon as is  
22 practical.

23

---

<sup>5</sup> The Commission's decision in Part A of this proceeding on the appropriate treatment of OSS transition costs as well as its decision here with respect to the nonrecurring charges for UNE-P will both impact the profitability analysis presented in my testimony.

1 **Q. EARLY IN THIS PROCEEDING, THE COMMISSION ASKED THE**  
2 **PARTIES WHETHER THEY DESIRED TO REOPEN THE ISSUE OF**  
3 **UNE LOOP PRICING. DID WORLDCOM ADVOCATE REOPENING AT**  
4 **THAT TIME?**

5 A. No. While WorldCom stated its concern about the level of the approved UNE  
6 loop prices at that time, it also expressed concern about the expenditure of  
7 resources required to relitigate this issue. Since that time, however, WorldCom's  
8 newly invigorated focus on local market entry has resulted the company's  
9 sharpening of its priorities. In Washington, the only way WorldCom or any other  
10 provider can enter the local residential market through the vehicle of UNE-P is if  
11 the state-wide average loop price is substantially reduced. Thus, the only option,  
12 if this Commission is to encourage residential competition in the State of  
13 Washington is to reexamine the UNE loop rate.<sup>6</sup>

14  
15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes.

---

<sup>6</sup> The Arizona Commission has recently agreed to reexamine the unbundled loop rate in that state. The Colorado PUC will be considering whether to reexamine UNE loop rates in the near future.