Exhibit No. ________ (CRD-IT)
Docket No. UT-050814

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Petition of	)	
Verizon Communications Inc. and MCI, Inc.	)	**Docket No. UT-050814**
for Approval of Agreement and Plan of Merger	)	

TESTIMONY OF

CARL R. DANNER

ON BEHALF OF

VERIZON COMMUNICATIONS INC. AND

MCI, INC.

June 28, 2005

TABLE OF CONTENTS

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Carl R. Danner. I am a Director with Wilk & Associates/LECG LLC, 201 Mission Street, Suite 700, San Francisco, CA 94105

Q. PLEASE SUMMARIZE YOUR BACKGROUND AND QUALIFICATIONS.

A. I was the Advisor and Chief of Staff to Commissioner (and Commission President) G. Mitchell Wilk during his tenure at the California Public Utilities Commission (CPUC). Since leaving the CPUC, I have provided consulting services to various clients on regulation and policy, with emphases on the telecommunications and energy industries. I hold a Masters and Ph.D. in Public Policy from Harvard University, where my dissertation addressed the strategic management of telecommunications regulatory reform. At Harvard I served as Head Teaching Assistant for graduate courses in microeconomics, econometrics and managerial economics. I hold an AB degree from Stanford University, where I graduated with distinction in both economics and political science. My experience includes researching and teaching regulation, advising regulators, testifying in regulatory proceedings, and advising clients on regulatory issues. My complete resume is attached as Exhibit CRD-2.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. In this testimony, I discuss the policy implications of the merger of Verizon Communications Inc. ("Verizon") and MCI, Inc. ("MCI"), including the customer benefits that will result from the transaction and why the transaction should be approved pursuant to RCW Ch.80.12.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. To the extent that the transaction requires approval by the Washington Utilities and Transportation Commission ("Commission"), approval is warranted under applicable Washington law and policy.

The reasons I have reached the above conclusion are as follows:

1. As a corporation, Verizon is already the product of a series of mergers of substantial scale (such as between Bell Atlantic and NYNEX, and subsequently Bell Atlantic and GTE), which were executed effectively and efficiently. Verizon also is a majority partner with Vodafone in Verizon Wireless — itself a product of various mergers and one of the most successful wireless businesses in the country. This experience should give the Commission confidence in the practical ability of Verizon management to implement the transaction without disruption to ongoing operations, to manage MCI as a successful subsidiary, and to deliver the anticipated efficiencies and customer benefits of this transaction.
2. The proposed merger makes sense in light of currently available communications technology, industry developments and technology trends. The Commission should analyze the transaction in light of the dramatic changes in communications technology and competition that have recently occurred, and that will likely continue into the future. Customers of every type, whether enterprise, small

business or residential, now have a myriad of communications options available to them. Companies that want to stay competitive must adapt to this new environment in which new technologies, new services and new providers are setting the pace. This transaction is a means for Verizon and MCI to do so.

3. It is sensible for Verizon to acquire the capability to address, in particular, the large enterprise segment of the market given Verizon's current position in that segment and its strengths as a local service and wireless provider. It is also sensible for Verizon to acquire a substantial nationwide transmission backbone to supplement its existing dense local networks, its large wireless operations, and its investment strategy to bring enhanced broadband capabilities to mass-market customers.

4. The transaction is also a rational decision and beneficial opportunity for MCI in light of its deteriorating local and long distance mass-market businesses and its lack of a wireless product set. The merger will allow MCI to capitalize on its strongest assets — its large enterprise business success, its extensive network in the large enterprise sector, and its Internet backbone — by teaming with a company that needs those assets and will invest in them, as well as provide MCI with access to a complementary set of wireless and other strengths. This partnership is also the right move at the right time for MCI because extensive competition has substantially eroded its mass-market businesses.

5. Although adverse effects on competition are a potential concern in any proposed merger, the analysis that Dr. Taylor has submitted in support of the Verizon-MCI transaction explains why it will not adversely impact competition in communications, either nationally or in Washington. Dr. Taylor reached this

conclusion for several reasons, including the extensive inter-modal competition already present both nationally and in Washington; the growth of such competition going forward; the lack of a strong Verizon presence in the large enterprise market segment; the irreversible decline in MCI's mass-market businesses; and the generally complementary, rather than competitive, nature of the services that the Verizon and MCI subsidiaries currently provide. I have reviewed Dr. Taylor's analysis and concur in his findings.

6. A principal benefit of this transaction is that it will enable Verizon and its subsidiaries to compete effectively in the provision of services to large enterprise customers, including federal and state government agencies. As Dr. Taylor explains, these customers demand a comprehensive suite of communications services, and neither MCI nor Verizon, standing alone, would be as effective at meeting the needs of these customers as the companies will be together.

7. The transaction will similarly benefit customers outside the large enterprise market. By making both companies a more potent competitive force, the merger will deliver benefits to customers of all types in the form of competitive prices, improvements to the networks that serve them, and the improved convenience and efficiency associated with the ability to purchase all of their communications needs from a single supplier. The transaction will also benefit customers by securing Verizon's investment in the maintenance and improvement of MCI networks and systems, including MCI's Internet Protocol ("IP")-based backbone. MCI grew its business through a series of acquisitions. The resulting network and support systems will benefit from the substantial investments that Verizon will undertake following the

merger. Verizon has already committed to investing $2 billion in enhancing MCI's network and systems, with the goal of enhancing all aspects of MCI's operations, including the Internet backbone.

8. I understand that the merger may raise questions because it combines a firm with a unique historical position in the development of wireline competition with a company that has substantial ILEC operations. Changes in law and regulation, however, along with substantial changes in technology, have fundamentally altered the basic characteristics of the industry in which MCI and Verizon now operate. A forward-looking view of this transaction reveals a far different perspective than might a retrospective examination of prior telecommunications-related issues and arguments. Specifically, a forward-looking view of the market shows that the transaction is a positive response to recent technological and competitive developments that will benefit customers and advance the public good. For the reasons discussed below and in Dr. Taylor's testimony, the transaction will create a company better able to serve customers' needs than either Verizon or MCI would have been alone. And because the transaction will accomplish this by combining largely complementary capabilities and market positions, it will not have countervailing anti-competitive effects. The Verizon-MCI merger will promote a competitive telecommunications marketplace while protecting and maintaining a wide availability of high-quality telecommunications services, and it will help all customers benefit from this increased competition in Washington and elsewhere.

9. As described more fully below, the Verizon-MCI Agreement and Plan of Merger requires no change in the operations of the regulated subsidiaries of Verizon and

MCI operating in Washington. In particular, there is no change contemplated with respect to the terms and conditions of service; service quality; customer service; the quality of facilities; the rate of investment; the companies' corporate affiliate transaction guidelines and policies; and their respective commitments to their customers and to their communities.

For all of the above reasons, I conclude that the transaction will cause no harm to the public interest, the applicable standard for approval of a proposed transaction under WAC 480-143-170.[1] The proposed Verizon/MCI transaction clearly satisfies this standard. Accordingly, if the Commission concludes that review of the transaction is required, the Commission should approve the transaction as proposed.

II. THIS TRANSACTION IS AN APPROPRIATE RESPONSE TO THE DRAMATIC CHANGES IN THE COMMUNICATIONS MARKETPLACE

Q. HOW IS THIS TRANSACTION AN OUTGROWTH OF THE COMPETITIVE CHANGES THAT YOU HAVE MENTIONED?

A. Verizon and MCI have decided to combine their complementary assets and expertise in order to create a stronger and more efficient competitor. This transaction is a direct response to the rapidly evolving and increasingly competitive communications industry.

---

[1] As the Commission has previously found, the Joint Petitioners do not need to demonstrate that their transaction specifically benefit the public, but only that it will cause no harm. *See, In the Matter of the Application of PacifiCorp and Scottish Power*, Docket No. UE-981627, Third Supplemental Order on Prehearing Conference at 2 (Apr. 2, 1999): "The standard in our rule does not require the Applicants to show that customers, or the public generally, will be made better off if the transaction is approved and goes forward. In our view, Applicants' initial burden is satisfied if they at least demonstrate no harm to the public interest."

The transaction reflects a much broader restructuring of the industry around new technologies, new services, and new providers.

Q. WHAT NEW TECHNOLOGIES, NEW SERVICES, AND NEW PROVIDERS DO YOU MEAN?

A. The transformation of the communications industry is the result of profound changes in technology. The deployment of digital, two-way, broadband capabilities, along with the growth of IP-based technologies, has finally brought about the long-anticipated "convergence" among once-separate networks and providers. As Dr. Taylor discusses in detail, wireline voice, data, cable, wireless, and satellite networks are all now capable of delivering an increasing array of innovative voice, data, and video services faster than ever before. Networks are being optimized to deliver data, rather than voice, and voice is just an adjunct to some data services. Enterprise and mass-market customers alike have enthusiastically adopted these new technologies and services, and increasingly use them both along with, and in place of, traditional wireline offerings.

Q. HOW HAVE THESE CHANGES AFFECTED CUSTOMERS?

A. These new technologies have produced new services that have broadened and changed the way in which customers communicate. Customers at home and at work often communicate using e-mails and instant messages from their computers or personal digital assistants (PDAs) instead of by placing voice calls. Businesses rely on the Web to order products, individuals use the Internet to make travel plans and even dinner reservations, and all customers use the Internet to perform any number of other tasks that once required phone calls.

As Dr. Taylor discusses in his testimony, when customers do make a voice call, a large (and increasing) percentage of them do so on a wireless rather than a wireline phone. Businesses and individuals alike are replacing wireline phones with broadband connections, which can be used to access a wide range of voice over Internet protocol (VoIP) services. And the networks built for voice communication have been expanded and optimized to include data communication of all types. Customers are using their various wireline and wireless devices not only to make voice calls and send messages, but also to share a growing array of multimedia files, including photos, video clips, music and documents.

Q. HOW HAVE SERVICE PROVIDERS ADAPTED TO THESE NEW CUSTOMER EXPECTATIONS?

A. Service providers of all varieties — wireline, cable, wireless, and VoIP alike — have adapted accordingly: most providers routinely offer “any time, any distance” calling plans that reflect this new reality and at prices that would have seemed implausible just a few years ago. Companies that were never in the *tele*communications business are now thriving competitors in the communications business.

Q. WHAT CHANGES TO CARRIERS’ NETWORKS HAVE THESE NEW SERVICES AND CUSTOMER DEMANDS REQUIRED?

A. The most important change is the ability to seamlessly carry both voice and data traffic. At a technological level, there is no distinction between voice and data traffic because digital networks convert both voice and data into indistinguishable digitized bits. From the customer's perspective, voice and data are interchangeable for a large and growing portion of their communications needs. Every day, for example, customers send many more e-mails and instant messages than they make voice calls, and many of the former now substitute for the latter. In order to remain competitive, companies must replace, upgrade, expand and develop their networks to meet customer demands for efficient, competitively-priced voice and data delivery services.

Q. HAS THE LINE BETWEEN LOCAL AND LONG DISTANCE ALSO BECOME BLURRED?

A. Yes. In addition to blurring the line between voice and data traffic, the technological innovations described above and in Dr. Taylor's testimony have blurred the line between local and long-distance traffic. One of the most profound effects of these changes is that new technologies and new modes of communication are erasing the distinction between local and long distance that once segregated the industry. From the customer's standpoint, it is no different to send an e-mail across the globe than across the street. A customer can plug in a VoIP phone in Seattle with a local telephone number from New York. A business can provide its employees with a Blackberry® to communicate between Los Angeles and Olympia as readily as they communicate across town. A customer can use her wireless phone in Tacoma, Richmond, or San Francisco, and pay the same amount whether she calls a neighbor around the corner, a colleague in another town or a relative across the continent.

The primary cause of this development is the extensive inter-modal competition described in detail in Dr. Taylor's testimony. The deployment of modern fiber networks is another key factor. Stated simply, local and long distance wireline carriers have been forced to adapt to the marketing strategies and technological capabilities of their *non*-wireline competitors. At this point, even though they may offer a stand-alone long distance or local product, many traditional wireline carriers actively market packages of services to customers. This is because the new entrants to the market ignore geographic barriers by offering services that are not only distance-insensitive, but are also not necessarily tethered to jurisdictional boundaries in other respects. The perfect example of such a service is VoIP, in which a customer may have a number from one city, a broadband connection in another city, and use the phone almost anywhere in the country. Such offerings make geography irrelevant to communications. As a result of such new services and the flexibility that they have made possible, customers now demand — and carriers must supply — communications services that allow calling to local, regional, national, and even international locations with ease and at competitive rates.

Q. HOW CAN THE COMMISSION BEST EVALUATE THIS TRANSACTION IN LIGHT OF THE MARKET ENVIRONMENT THAT YOU DESCRIBE?

A. As I stated above, companies providing communications services are adapting to these new technologies and new demands from customers. The Commission should adapt to these changes as well by moving its analysis of transactions like this one beyond the outmoded "local" vs. "long distance" dichotomy since that distinction is no longer meaningful for either providers or customers. Instead, it should evaluate the competitive effects of this transaction based on the entirety of the communications market and not based on the wireline market segment standing alone, much less any subset of that market, such as local or long distance.

Q. WHAT ASPECTS OF THE ENTIRE COMMUNICATIONS MARKET SHOULD THE COMMISSION TAKE INTO CONSIDERATION?

A. It is particularly important to recognize the breadth of the new market in which Verizon and MCI will compete following the transaction. For example, large enterprise and medium business customers purchase a broad array of services that include not just wireline voice, but myriad data services as well as network integration, network management capabilities and wireless services. The competition to provide such services includes not only MCI, Verizon, AT&T, and other ILECs and competitive local exchange carriers ("CLECs"), but also, as Dr. Taylor explains, numerous companies that are not regulated by the Commission and with which the Commission may be unfamiliar. In determining the public interest, the Commission must evaluate the impact this transaction will have on the broad market for communications services. Again, it cannot limit its analysis to wireline services, or even worse, to subsets of wireline service such as local and long distance. Instead, the Commission should view the market from the perspective of customers, who take little notice of jurisdictional boundaries or outdated market distinctions except when they stand in the way of efficient, reasonably priced services.

Q. HOW DOES THIS INDUSTRY ANALYSIS RELATE TO MASS MARKET CUSTOMERS — *I.E.*, CONSUMERS AND SMALL BUSINESSES?

A. It is important to recognize that consumer and small business expectations have similarly changed and this market too is now served by a broad array of providers and services, including wireline and wireless voice and data, broadband from cable, VoIP, e-mail and Instant Messaging. These customers generally can choose from a full range of "any time, any distance" services from various providers such as wireline, wireless, broadband, cable, and VoIP. If the Commission reviews this transaction with an understanding of current market realities and expected market advances, I believe it will conclude that this transaction will promote the public good by creating an entity that is better able to compete against the new players in the mass market sector (for example, VoIP and wireless companies) than MCI or Verizon would have been alone.

Q. HOW DOES THE MERGER OF MCI AND VERIZON RESPOND TO THE COMPETITIVE CHALLENGES THAT YOU DESCRIBE?

A. Verizon's merger with MCI represents the next logical step in the industry transformation discussed above. The transaction will marry Verizon's best-in-class broadband, wireless, and local wireline networks with MCI's Internet backbone and global reach to the benefit of all customers. As Dr. Taylor explains in detail in his testimony, the evidence of a dramatic transformation of communications is overwhelming, whether viewed on a national scale or in Washington. Large enterprise customers are moving to wireless services in lieu of wireline services (as illustrated by an agreement between Sprint and Ford Motor Company to replace 8,000 SBC lines with Sprint's wireless PCS service).

Many Enterprise customers are migrating their traffic from separate voice and data networks to integrated IP networks capable of providing all of the services they need more efficiently. In addition, mass-market customers are increasingly taking advantage of wireless, digital, cable and other solutions for their evolving communications needs. The companies that can provide such services are numerous and varied. Verizon and MCI have determined that the best way to compete with such providers in meeting evolving customer demands is to combine forces.

Q. HAVE VERIZON'S CURRENT NETWORK ASSETS HAMPERED ITS COMPETITIVE EFFORTS IN THE ENTERPRISE MARKET SEGMENT THUS FAR?

A. Yes. On a national level, Verizon has failed to win a wide variety of bids for enterprise services worth tens of millions of dollars based on its limited network capability or network reach. Recent examples of such losses include bids to provide national long-distance voice and data services, when Verizon did not match the network reach of competing bidders. Verizon lost these bids primarily because it lacked the broad-ranging, facilities-based network coverage that these enterprise customers were seeking. The merger will provide Verizon with the assets it needs to compete for such bids in the future, and will thus benefit the market by introducing additional pricing pressure and service choice to it customers.

Q. ARE THE TRANSFORMING TECHNOLOGY AND MARKET TRENDS DESCRIBED ABOVE CONFINED TO THE ENTERPRISE MARKET SEGMENT?

A. Not at all. As previously noted, a similar transformation is reshaping the consumer market. More consumers now use broadband connections instead of traditional narrowband connections to access the Internet, and an increasing number have begun using these broadband connections for voice as well.[2] Competitive broadband services (such as cable modems) are widely available and increasing in popularity. Cable companies supply far more of the state's broadband connections than the local exchange companies provide. Such broadband connections can be used to provide circuit-switched cable telephony, as well as VoIP services supplied by the cable provider or another VoIP competitor. These developments are discussed in Dr. Taylor's testimony.

Q. WHAT OTHER PROVIDERS ARE SERVING THE MASS MARKET?

A. As described more fully in Dr. Taylor's testimony, mass-market competition is primarily from cable companies, wireless companies, and VoIP providers. All of the major cable operators have begun offering VoIP services over their networks and by the end of this year will be offering service to more than 40 million homes in the United States. Major cable operators such as Time Warner Cable and Cablevision already make voice service available across their entire footprint, while others, such as Comcast and Cox, expect to reach that milestone by the end of next year. Nearly five million American households

[2] See Nielsen Net Ratings, "U.S. Broadband Connections Reach Critical Mass," August 18, 2004. http://www.netratings.com/pr/pr_040818.pdf

already subscribe to cable telephony and VoIP services, and cable companies and other VoIP providers are expected to displace wireline in as many as one-fifth of American households within five years.

Q. ARE THERE SPECIFIC EXAMPLES OF SUCH COMPETITION IN WASHINGTON?

A. Yes. Cable telephony is available to a majority of cable homes passed in Washington. Comcast is the largest provider in the state and as Dr. Taylor notes in his testimony, 99% of homes passed by Comcast are broadband ready and 66% are cable telephony ready. Other cable companies in the state have equipped facilities with broadband capability such that 81% of homes passed by other cable operators are broadband ready.

Q. ARE THERE OTHER COMPETITORS FOR CONSUMER AND SMALL BUSINESS SERVICES IN WASHINGTON?

A. Yes. Wireless competition is also having a dramatic impact on the communications market. In Washington, a number of major wireless competitors are marketing services, including: Cingular, Nextel, RCC (Unicel), Sprint PCS, and Virgin Mobile as well as Verizon Wireless.

In addition to wireless competition, VoIP services are also available in Washington. There are a number of companies currently offering VoIP telephone service, including Vonage, Skype, AT&T, Net2Phone, and VoiceWing (Verizon). All of these VoIP providers offer services to customers that want to use area codes in Washington. For example, Vonage, which calls itself the "Broadband Phone Company," offers both residential and business service to customers in Washington and elsewhere using the 206, 253, 360, 425, 509 area codes.[3] As a result of the various competitive forces broadening the options of all of these customer groups, the traditional wireline (*i.e.*, telephone exchange) businesses of MCI and Verizon have both been in decline for some time.

III. JOINING VERIZON'S AND MCI'S COMPLEMENTARY BUSINESSES WILL BENEFIT ALL CUSTOMERS

A. Large Enterprise and Government Customers

Q. HOW WILL THIS TRANSACTION HELP VERIZON MEET THE NEEDS OF LARGE ENTERPRISE CUSTOMERS?

A. As Dr. Taylor explains in his testimony, customers in the large enterprise segment of the market (*i.e.*, Fortune 1000 companies, federal government agencies, large state agencies and similar sized institutions) are among the most sophisticated consumers of communications services. These customers purchase complex, integrated packages of voice and data services through competitive procurement or individually negotiated contracts. These customers also typically require services at multiple locations, and often require customization of network functions and systems. Under such contracts, voice is just one of many applications that ride over these networks. Although Verizon has been working to increase its large enterprise business for several years, it still has a relatively small share of this business in its operating territories and even less of a presence outside

---

[3] *See e.g.*, the following sites accessed June 27, 2005: http://www.vonage.com; http://web.net2phone.com/consumer/voiceline/phone_numbers_area_codes.asp; https://www.callvantage.att.com/signup/ServiceAvailabilityLite?soac=64528; http://www.skype.com/; http://www22.verizon.com/ForYourhome/voip/voiphome.aspx.

its operating territories. By joining Verizon's and MCI's complementary assets and excellent sales forces, the transaction will make the combined company more competitive across the enterprise market segment than either company would have been alone. Verizon's local and regional presence, coupled with MCI's innovative enterprise and government sales expertise and product offerings, will allow the merged company to provide enterprise and government customers with a suite of products and services capable of addressing the full range of these customers' needs.

Q. HOW WILL THIS TRANSACTION BENEFIT LARGE ENTERPRISE CUSTOMERS?

A. Large enterprise customers will benefit from the creation of a strong new company with the network reach and financial resources that enable it to compete in this technologically intense and highly competitive market segment. Government customers will benefit and national security will be enhanced by the planned investment in the national and international communications infrastructure that is relied upon by the Departments of Defense and Homeland Security, as well as other federal and state agencies. Given Verizon's financial strength, this transaction will also ensure that these customers will continue to be served by a strong provider that can meet customers' needs nationally and internationally. Indeed, Verizon will bring to the enterprise and governmental business sector the same commitment to innovation and investment that it previously (and successfully) brought to its mass-market wireline and wireless businesses. The fact that Verizon has already committed to invest $2 billion in capital in enhancing MCI's network and systems is strong evidence of the benefits that Verizon's financial strength can bring to important MCI assets. In addition, many large enterprise and government customers use multiple, coordinated providers to meet their needs. To the extent that such customers choose to have multiple suppliers involved in their provisioning, competing suppliers, and ultimately customers, will benefit from the availability of an efficient wholesale provider with a broad reach.

Q. ARE THERE ADDITIONAL BENEFITS FOR LARGE ENTERPRISE CUSTOMERS?

A. Yes. Within its region, Verizon has an extensive network with substantial local fiber. Verizon Wireless has one of the most advanced and extensive wireless networks in the country. MCI, by contrast, has a global fiber optic long-distance network and global data capabilities that include private line and packet-switched data services such as ATM and Frame Relay. In addition, MCI has an extremely valuable and extensive IP-based backbone network and related expertise. The combination of these assets will benefit customers by enabling them to obtain a broad array of services in a single transaction, and at the competitive pricing permitted and encouraged by the more efficient operation of these networks. The transaction also will allow Verizon to utilize MCI's ISP connectivity services (such as email, web hosting, DNS services and others), in a way that will enhance its capabilities in a segment in which Verizon is currently a small provider.

In addition, the Verizon/MCI combination of product offerings will provide a stronger, and geographically broader, converged solution for large enterprises. Verizon currently has strong IP-based offerings, but they have limited reach within its area footprint and Verizon is not a major provider of IP-based services. As noted above, one of MCI's core strengths is its global Internet backbone, which provides global IP connectivity today, and will be able to provide next-generation VoIP and other IP-based services worldwide tomorrow. The combined company will thus be able to offer converged IP-based solutions to large enterprise customers with national and global needs, and thus will be able to grow its application services on a broader scale.

The combination should also accelerate the completion and delivery of the "seamless mobility" services that Verizon is already developing. Commercial and institutional customers want their employees to have access to communications capabilities anywhere, at any time, with the ability to take advantage of the highest available bandwidth – whether that bandwidth is WiFi or WiMax, cellular, or landline. Verizon has taken the first steps towards realizing this vision by introducing an innovative product developed in-house and only recently introduced to the market. The new product is called "iobi®," and it is a powerful new service that delivers unified communications and specialized features nationwide. This product allows the customer to control all aspects of his communications in a way never before experienced. The combined Verizon/MCI entity will be able to extend such innovation and make it available to large enterprise customers faster and on a more comprehensive basis than Verizon could do on its own.

Q. CAN OTHER EXISTING PROVIDERS ALSO DELIVER A RANGE OF CAPABILITIES TO LARGE ENTERPRISE CUSTOMERS?

A. Yes, the transformation in communications that I described earlier applies to *all* communications providers. The Verizon-MCI acquisition is just one example of the changes the industry is undergoing. Competing providers offer their own unique capabilities and can assemble transmission capacity from diverse sources, and there is generally a surplus of long-haul capacity in the market today.[4] Nevertheless, the combined company will offer customers services provided over a centrally managed network, leading to an increased transparency in network management that some customers desire. Ownership of the various pieces of a network enhances a carrier's ability to standardize service quality and other requirements across the entire network.

B. Mass Market Customers – Small Business and Consumer

Q. HOW WILL THIS TRANSACTION HELP VERIZON MEET THE NEEDS OF SMALLER BUSINESSES AND CONSUMERS?

A. The characteristics of the residential and small business segment are described in detail in Dr. Taylor's testimony. As he explains, providers to this segment of the market include cable companies, traditional IXCs, CLECs, VoIP providers and resellers. Although, as Dr. Taylor explains, many medium-sized businesses buy sophisticated communications solutions for voice and data that are similar to those purchased by large enterprise customers and are properly regarded as part of the enterprise segment, some medium-sized businesses may buy "off the shelf" solutions to their communications needs and are more like small business customers. Either way, these customers will benefit from the

---

[4] *See* Jeff Halpern, Bernstein Research Weekly Notes, *U.S. Telecom: Wholesale Segment Is Declining, But Still Significant* at 2 (Jan. 21, 2005) ("*Bernstein Wholesale Report*") ("The long-distance market is burdened with a capacity glut from the overinvestment of the late 1990s, leading to persistent pricing pressure.").

transaction. As products and services are developed for the large enterprise sector, they can be delivered to smaller business customers with similar needs. These customers also want services and/or packages that take care of their any-distance voice and data (Internet) needs at reasonable prices, and the transaction will allow Verizon and MCI to meet this need more effectively than either company could alone.

These benefits of the merger will not be offset by decreased competition in the mass-market sector because, as Mr. Michael Beach discusses in his accompanying testimony, MCI's consumer business is in a continuing and irreversible decline.

MCI has been managing the decline of its consumer business independent of this transaction based on factors including: (i) intense competition from cable, wireless, traditional wireline companies, and new technologies like VoIP and e-mail; (ii) restrictions on marketing resulting from Do Not Call legislation; and (iii) regulatory changes that affect MCI's recent mode of providing the all-distance services that consumers increasingly demand. Because MCI is scaling its consumer activities consistent with its declining consumer business, this transaction will not eliminate competition, but will simply enhance Verizon's ability to service mass market customers going forward.

Q. HOW ELSE WILL MASS MARKET CUSTOMERS BENEFIT FROM THIS TRANSACTION?

A. As Dr. Taylor explains, in every market segment in which both Verizon and MCI provide service, Verizon and MCI face strong and intensifying competition The promise of the Verizon/MCI transaction is that it will encourage increased investment to critical network infrastructure and accelerate the delivery of innovations to all consumers. For example, services that are first delivered to commercial and institutional customers as customized offerings can be standardized and offered to consumers at all levels to achieve economies of scale. The combined companies' integrated IP network and expertise will not only enable more efficient delivery of services, but will also add new features and functions more quickly, with the goal of delivering them faster and more efficiently to all customers.

IV. THE COMBINATION OF VERIZON'S AND MCI'S COMPLEMENTARY ASSETS AND EXPERTISE WILL PROMOTE THE PUBLIC GOOD

Q. WILL THIS TRANSACTION HAVE AN IMPACT ON THE RATES AND QUALITY OF SERVICE OF THE REGULATED SUBSIDIARIES OF EITHER VERIZON OR MCI?

A. No impact is anticipated. The terms of the transaction require no change to the operations of the regulated subsidiaries of either MCI or Verizon; therefore, there should be no impact on rates, service quality or operations at the regulated company level.

Q. HOW WILL THE BENEFITS OF THE TRANSACTION BE DELIVERED TO CONSUMERS AND SMALL OR MEDIUM BUSINESSES IF THE OPERATIONS OF THE REGULATED COMPANIES DO NOT CHANGE?

A. As discussed above, the immediate impact of this transaction is most likely to be seen in the delivery of services to large enterprise and government customers. However, the benefits of the transaction will ultimately filter down to all customers because the transaction will create a more competitive entity able to provide a broader range of services than either MCI or Verizon could have provided alone. It will also benefit all customers by enabling investment in, and improvements to, MCI's networks and operating systems.

As noted in the Parties' Joint Petition, a number of the changes and improvements expected to result from the transaction will be in the non-regulated and competitive services sold by the combined company. If and when changes are warranted at the regulated company level, whether for Verizon subsidiaries or MCI subsidiaries, the regulated entity will seek and obtain all necessary public interest approvals from the Commission.

Q. DOES THE TRANSACTION AFFECT THE REGULATION OF THE OPERATIONS OF THE COMBINED COMPANY IN WASHINGTON?

A. This transaction does not alter the Commission's regulatory authority over the state-regulated Verizon and MCI business units. Under the agreement between the parent companies, MCI will become a subsidiary of Verizon and the MCI subsidiaries will become secondary or tertiary subsidiaries of Verizon. *All of the state-regulated MCI and Verizon business units will retain whatever regulatory certificates and obligations they currently have.* The transaction does not involve changes in the price of regulated services, nor does it require the withdrawal of any such services. The transaction is a parent level stock transaction only, and, as noted above, any post-transaction modifications to the prices, terms, or availability of regulated services will occur in accordance with all applicable laws and regulatory approval requirements. The same is true of any post-transaction changes to MCI entities or assets. To the extent Verizon wishes to combine or eliminate existing MCI legal entities or assets after the transaction is complete, Verizon will comply with all applicable Commission notice, review, and approval procedures.

Q. WHAT SHOULD THE COMMISSION CONCLUDE ABOUT THE TRANSACTION'S POTENTIAL IMPACT ON COMPETITION?

A. The Commission should conclude that the transaction will cause no harm to the public interest and approval should be granted under WAC 480-143-170. This transaction creates a more effective competitor and does not cause any countervailing anti-competitive harm. As Dr. Taylor explains in depth in his testimony, this transaction will not impair competition and will not have a material adverse effect on competition among providers of communications services. Further, because of the substantial benefits that the merger will bring, the combination of Verizon and MCI will be in the public interest.

The evidence that supports this conclusion can be summarized as follows:

1. At the level of network assets, the two companies are an almost perfect fit, with MCI providing a global long-distance voice and data network and, more

importantly, a top-of-the-line Internet backbone that will complement Verizon's dense, in-region local wireline network and best-in-class wireless network.

2. The transaction will enable greater investment in the companies' networks and assets than either company could provide alone. Verizon will make substantial investments to realize the efficiency and service-related benefits of the transaction, and has already committed to a $2 billion investment (enhancing MCI's network and systems) as a part of this transaction.

3. The state-regulated subsidiaries of both Verizon and MCI will remain regulated by the Commission, subject to the same standards for fair dealing with customers that currently prevail.

4. The companies' core service competencies are complementary, with MCI's experience as a primary provider of large enterprise services and IP-based services paired with Verizon's strengths as a provider of local bandwidth, wireless services, CPE and related services, and network integration. The marriage of the two companies promises immediate efficiencies and long-term innovations that neither company could achieve on its own.

5. Finally, because the companies' assets and capabilities are complementary, and because the combined entity will face competition from a number of diverse competitors in the enterprise segment, the transaction will not obstruct or impair competition in that segment of the communications market. Because MCI's consumer segment of the mass market is already declining, and because small businesses have a variety of other service providers from which to choose, the transaction also will not have anti-competitive effects in the mass-market segment.

V. CONCLUSION

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. For all of the reasons outlined above and the showing that the Verizon-MCI merger will cause no harm to the public interest, the Commission should approve this transaction expeditiously.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.