

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION**

In the Matter of the	)	
	)	
Joint Petition of	)	
	)	
Verizon Communications Inc., and	)	Docket No. UT-050814
MCI, Inc.	)	
	)	
for a Declaratory Order Disclaiming	)	
Jurisdiction Over or, in the Alternative a Joint	)	
Application for Approval of, Agreement and	)	
Plan of Merger	)	
_____	)	

**DIRECT TESTIMONY OF MICHAEL A. BEACH  
ON BEHALF OF MCI, INC.**

**JUNE 28, 2005**

**HIGHLY CONFIDENTIAL PER WAC 480-07-160**

**[REDACTED VERSION]**

1 **Q. What is your name, business address and current position with MCI?**

2

3 A. Michael A. Beach. My business address is 6415 Business Center Drive,  
4 Highlands Ranch, Colorado 80130. I am Vice President – Carrier Management  
5 for MCI.<sup>1</sup>

6 **Q. What are your qualifications?**

7 A. As Vice President – Carrier Management for MCI, I am responsible for managing  
8 MCI's business relations with telephone companies and other vendors who  
9 provide facilities and services within the United States used by MCI to provide its  
10 telecommunications products; contract negotiation for interconnection, facilities  
11 and services provided to MCI by these vendors; and the audit and payment of line  
12 costs billed by these vendors to MCI with respect to these capabilities.

13 I joined MCI in 1974 and have managed a wide range of technical,  
14 regulatory and carrier relations activities. My previous position with MCI was  
15 Vice President – West Region Carrier Management, with responsibilities for  
16 similar activities as my present position, but limited to the territory comprised of  
17 the western 28 states in the United States. Prior to that, I was Vice President for  
18 Local markets with responsibility for negotiating and implementing Local  
19 Interconnect Agreements pursuant to the Telecommunications Act of 1996 with  
20 local exchange carriers throughout the United States.

21 Other assignments I have had at MCI include Director of Operations for  
22 MCI's West Division (from 1984 to 1987) with network and service installation

---

<sup>1</sup> MCI, Inc. identifies the holding company. I use "MCI" for ease of reference throughout this testimony to refer to the collective MCI operating companies.

23 and maintenance responsibility across the 14-state territory served by US West at  
24 that time, and Director – State Policy (from 1981 to 1984) with responsibility for  
25 MCI’s State Regulatory and Legislative activity within the United States.

26 Before joining MCI, I was an industrial engineer for Bourns Electronics in  
27 Ames, Iowa. From 1969 to 1973 I was a Telecommunications Technical Control  
28 Specialist with the United States Air Force.

29 I have a bachelors of science degree in Business Administration from the  
30 University of Phoenix. I live and work in the Denver, Colorado area.

31 **Q. What is the purpose of this testimony?**

32 A. This testimony will describe, from MCI’s perspective, how the merger between  
33 MCI and Verizon will promote a competitive telecommunications marketplace  
34 with public interest benefits to customers and to Washington, while at the same  
35 time protecting and maintaining the wide availability of high-quality  
36 telecommunications services at just and reasonable rates.

37  
38 I will first discuss MCI’s presence in Washington, MCI’s various subsidiaries and  
39 their operations in Washington, MCI’s facilities in Washington, MCI’s business  
40 serving residential and small business customers, and MCI’s business serving  
41 enterprise customers. Next, I will discuss the effects of the merger on MCI’s  
42 business, its customers, and the state of competition in the marketplace. In  
43 particular, I will explain that the merger will be in the public interest and will not  
44 result in harm to competition in the market for residential and small business

45 customers. This is so because nationally MCI's mass market business is in a state  
46 of continuing and irreversible decline and because the market is a highly  
47 competitive one characterized by a number of significant intermodal alternatives.  
48 By intermodal alternatives, I mean alternative services provided by wireless, cable  
49 or VoIP providers, as opposed to traditional competitive local exchange carriers  
50 ("CLECs") and incumbent local exchange carriers ("ILECs").

51

52 In addition, I will explain that the merger will not harm the public interest. In  
53 fact, the merger will benefit enterprise customers (i.e., large and medium-sized  
54 businesses and government institutions) because MCI and Verizon offer  
55 complementary services and, by combining forces, will be better able to serve this  
56 extremely sophisticated market. At the same time, the merger will not harm  
57 competition for enterprise customers, because MCI and Verizon are only two of  
58 many competitors in the few segments of this market in which they do currently  
59 compete with one another. In sum, as I will explain, in Washington the merger  
60 will be pro-competitive, will promote customer choice, and will result in producer  
61 and consumer welfare gains without impairing any services to customers.

62

63 **I. MCI'S SUBSIDIARIES IN WASHINGTON**

64

65 **Q. Which MCI businesses have operations in Washington?**

66 A. MCImetro Access Transmission Services LLC provides local services in the state.

67 MCI WorldCom Communications, Inc., and MCI WorldCom Network Services,

68 Inc., provide long-distance services. MCI also operates two additional

69 subsidiaries in the state: Teleconnect Long Distance Services and Systems Co.

70 ("Telecom\*USA"), and TTI National, Inc. Both of these entities offer resold

71 interexchange services. Each of these firms is registered with the Washington

72 Utilities and Transportation Commission ("WUTC") and is classified as a

73 competitive provider.

74 **Q: What services do these subsidiaries provide?**

75 A. MCImetro Access Transmission Services LLC ("MCIMetro") is the primary

76 competitive local exchange carrier ("CLEC") subsidiary of MCI, Inc. As a

77 CLEC, MCIMetro offers a variety of local exchange services for residential and

78 commercial customers, as well as access services for interexchange carrier

79 ("IXC") customers. Its most familiar product is "The Neighborhood" suite of

80 local and integrated local/long-distance services. MCImetro also offers similar

81 offerings to its small business customers. For larger commercial customers,

82 MCImetro offers basic line services, local trunks, ISDN, PBX services, and

83 private line services. MCImetro also provides switched and special access

84 services for end users and IXC customers.

85 MCI WorldCom Communications, Inc. (“MWC”) is the primary  
86 interexchange carrier subsidiary of MCI, Inc. MWC is a full service interLATA  
87 and intraLATA provider and offers retail service to residential customers as well  
88 as a complete array of products to our business customers. For those residential  
89 customers who select MWC as their Primary Interexchange Carrier (or “PICed”  
90 carrier), they can select from pricing plans that offer traditional per-minute rates  
91 or block-of-time options. MWC’s commercial customers can choose from both  
92 dedicated and switched access offerings, as well as private line services. Some of  
93 those products include VNET, Vision, On-Net, On-Net Plus, MBS-1, and toll free  
94 (e.g., 800) Service.

95 MCI WorldCom Network Services, Inc. (“MWNS”) is an IXC subsidiary  
96 of MCI, Inc. that provides wholesale long-distance service. MWNS offers  
97 switched and dedicated interLATA and intraLATA service for commercial  
98 customers. Those services include 800, calling card, and operator services, as  
99 well as traditional outbound services (rated on a per-minute basis). Volume  
100 and/or term discounts are available on many of MWNS’s offerings. Switched  
101 56/64 kbp and ISDN Service are available to those customers who need these  
102 specific applications.

103 Telecom\*USA is an IXC subsidiary of MCI, Inc. and is the primary  
104 provider of dial-around services for MCI. Telecom\*USA offers switched  
105 outbound long-distance interLATA and intraLATA services to both residential  
106 and business customers. Telecom\*USA customers can access these services

107 through a variety of access methods, including calling cards, selecting  
108 Telecom\*USA as their PICed carrier through an operator service, casual calling,  
109 and a variety of 10XXX dialing patterns such as 1010220, 1010321, and 1010987  
110 (referred to as “dial-around”). Business customers also have the option of  
111 accessing Telecom\*USA services through dedicated access lines. Some of the  
112 calling plans are offered on a “block-of-time” basis, such as “Talk Smarter.”  
113 These block-of-time plans are similar to many cellular companies’ offerings that  
114 provide a certain amount of minutes for a set price.

115 TTI National Inc. (“TTI”) is an IXC subsidiary of MCI, Inc. TTI offers  
116 inbound (e.g., 800) and outbound long-distance services for both residential and  
117 business customers. Services for residential customers are offered via switched  
118 access, while business customers can choose between switched or dedicated  
119 access, depending on their particular application. Service plans and/or term plans  
120 are available to obtain either volume or term discounts, or both.

121

## 122 II. MCI’S FACILITIES IN WASHINGTON

123

124 **Q. Can you describe MCI’s local transport facilities in Washington?**

125 A. MCI has local fiber networks in the Seattle metropolitan area. These fiber  
126 networks span only a relatively small portion of the metropolitan areas in which  
127 they are located. This is because construction of local fiber facilities is relatively  
128 expensive and time-consuming. MCI has therefore focused its construction on

129 areas in which there is a high demand for services and large numbers of existing  
130 and potential customers. In each city, MCI has extended its local fiber network to  
131 particular buildings that have the highest level of demand, such as large office  
132 buildings, corporate headquarters campuses, and carrier hotels. In Washington,  
133 MCI has [BEGIN HIGHLY CONFIDENTIAL] \*\* [END HIGHLY  
134 CONFIDENTIAL] such “on-net” buildings, in which MCI can serve customers  
135 entirely over its own facilities. [BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\*  
136 \*\*\*\* [END HIGHLY CONFIDENTIAL] are located in Verizon territory<sup>2</sup> and  
137 [BEGIN HIGHLY CONFIDENTIAL] \*\* [END HIGHLY CONFIDENTIAL]  
138 are located in Qwest territory in Washington.

139 **Q Can you describe MCI’s local switching facilities in Washington?**

140 A. MCI has two local Class 5 switches in Washington.

141 **Q. How does MCI use these local facilities?**

142 A. MCI uses its local fiber networks to connect enterprise and wholesale customers  
143 in Washington to MCI’s long-haul voice, data, and Internet Protocol (“IP”)  
144 networks. It also uses its networks to offer services to business and wholesale  
145 customers, including local private line services, special access services,  
146 metropolitan area frame relay services, and switched business local exchange  
147 services. Switched local voice services are provided to business customers using  
148 MCI’s Class 5 circuit switches associated with its local network.

149 **Q. Can you describe MCI’s other facilities in Washington?**

---

<sup>2</sup> “Verizon territory” refers to Verizon Northwest Inc.’s exchanges, as filed with the WUTC. Likewise, “Qwest territory” refers to Qwest Corporation’s exchanges as filed with the WUTC.



150 A. MCI owns and operates fiber and related facilities to provide interstate and  
151 intrastate transport. It also owns and operates an Internet backbone, part of which  
152 traverses Washington, and which includes Internet hubs located in the Seattle  
153 metropolitan area.

154 **Q: Does MCI use other carriers' facilities?**

155 A. MCI leases facilities and services from Qwest Corporation ("Qwest"), Verizon  
156 Northwest Inc. and other carriers to reach customers that are not on MCI's  
157 network.

158 **III. MCI'S CONSUMER BUSINESS**

159  
160 **Q. What is the purpose of this section of your testimony?**

161 A. I will now discuss the state of MCI's consumer (or "mass market") business,  
162 which includes both residential and small business customers.

163 **Q. What services does MCI provide to mass market customers?**

164 A. MCI provides customers primarily with local and long-distance telephone voice  
165 services, which are often bundled together into a single, combined product. MCI  
166 also provides DSL to a limited number of customers. MCI provides the local  
167 component of these services using loops, transport, and switching leased from the  
168 incumbent local exchange carrier, through the use of UNE-P, or commercial  
169 agreements. MCI has entered into such a commercial agreement with Qwest that  
170 I will discuss further. MCI also provides UNE-P to residential and small business  
171 consumers in the Verizon territory of the state using loops, transport and

172 switching leased from Verizon Northwest. MCI offers no facilities-based local  
173 mass market services.

174 **Q. Does MCI provide these services on a local or a national basis?**

175 A. MCI's mass market operations are national in scope. While rates and other terms  
176 and conditions of service may vary from state to state, in virtually every respect,  
177 MCI treats its mass market operations as one national operation. In particular, its  
178 cost structure is based on the scale and scope economies it achieves as a national  
179 carrier, virtually the same products are offered across the country, the marketing  
180 operation is national in scope, and other aspects of the business, such as ordering  
181 and provisioning activities, operate nationally and not at a state-specific level.

182 **Q. What is MCI's sense of its continuing role in the mass market?**

183 A. MCI's consumer base has declined, and will continue to shrink, because a series  
184 of market, technological, and regulatory changes have converged to reshape the  
185 telecommunications landscape. These factors include:

- 186 • restrictions on marketing resulting from "Do Not Call" legislation;
- 187 • erosion of long distance minutes resulting from competition from wireless  
188 providers, who offer long distance calling "for free;"
- 189 • entry by Bell Operating Companies into the long distance business;
- 190 • customer preference for all-distance service and the convenience of one  
191 bill from one company for all their telecommunications needs;
- 192 • provision of voice services, whether circuit switched or IP based, by cable  
193 companies;
- 194 • availability of broadband-based telecommunications services, including  
195 VoIP; and
- 196 • regulatory changes that eliminated the availability of UNE-P at TELRIC  
197 rates and adversely affected the economics of MCI's provision of  
198 integrated services.

199

200 **Q. What are the technological factors that are driving these changes and**  
201 **causing MCI's consumer business to decline?**

202 A. Consumers are increasingly relying on technologies other than traditional wireline  
203 telephone service to communicate. Most of all, as discussed in detail in Dr.

204 Taylor's testimony, the much-discussed digital/broadband revolution finally is  
205 becoming a reality. Cable companies and the RBOCs are rolling out broadband-  
206 based cable modem service and DSL, respectively, on a widespread basis. The  
207 move to broadband has been accompanied by the emergence of VoIP technology,  
208 which allows people to make telephone calls at a fraction of the price traditional  
209 telephone companies charge. Broadband and VoIP technologies also have  
210 allowed many companies that have not traditionally offered telephone service to  
211 compete with traditional service providers. Thus, new companies such as Vonage  
212 and Skype have come into the marketplace and attracted customers to their  
213 telephony products. They have been joined by large companies such as AOL and  
214 Microsoft that are able to offer telephony-like services both to new customers and  
215 to their large, existing customer base. As these new services gain increasing  
216 consumer acceptance, voice service increasingly begins to look like a software  
217 application that rides over legacy broadband facilities. The increasing availability  
218 of these services will further curtail MCI's opportunities in the residential arena.  
219 Furthermore, newer technologies such as wireless "WiFi" mesh networks are  
220 beginning to be deployed by local governments and other entrepreneurial service  
221 providers. Newer and better broadband technologies such as "WiMax" offer even  
222 greater potential down the road. E-mail and instant messaging now allow  
223 consumers to communicate across the country and around the world without using  
224 a traditional wireline telephone. All of these technological developments are  
225 eroding and will further erode MCI's residential business.

226 **Q. What other factors are contributing to the decline in MCI's consumer**  
227 **business?**

228 A. In addition to these broadband alternatives, wireless telephony has seriously  
229 eroded MCI's market position. Recent data show that the average household with  
230 a wireless phone now places 60 percent of its long-distance calls on wireless  
231 phones, instead of a traditional wireline home phone. [Yankee Group News  
232 Release, *The Success of Wireline/Wireless Strategies Hinges on Delivering*  
233 *Consumer Value* at 7 (Oct. 2004).] Wireless carriers offer customers not only  
234 popular flat-fee pricing arrangements, but also the added convenience of mobility.  
235 Moreover, a small but growing percentage of consumers have "cut the cord"  
236 entirely, opting to use wireless service in place of both local and long-distance  
237 wireline service.

238 Moreover, MCI's stand-alone long-distance business has been hurt by the  
239 increasing desire of consumers to purchase integrated local and long-distance  
240 products. Recent data demonstrate that more than half of U.S. households  
241 purchase an "all-distance" service, which includes local and long-distance service  
242 and a number of vertical features such as call waiting and caller ID. ["Bundle  
243 Up," *Wall Street Journal* at B4 (July 15, 2004).] Indeed, the number of customers  
244 purchasing all-distance service from the same provider has roughly doubled in the  
245 past two years, and will likely continue to grow in the future. ["Bundle Up" at  
246 B4.]

247                   The success of the all-distance offerings (including, up until recently,  
248 MCI's own all-distance offering), along with the other factors I have discussed,  
249 has led to the severe erosion of MCI's stand-alone long-distance business. As the  
250 data summarized below describe, whether measured by revenue, minutes, or  
251 customer lines, MCI's stand-alone long-distance business is collapsing, as  
252 customers are showing a decided preference for all-distance service. This is true  
253 for MCI nationwide as well as in the Qwest service territory in Washington.

254 **Q. Did MCI attempt to benefit from consumers' desire for integrated products?**

255 A. Yes. Initially, many of the customers who wanted integrated products purchased  
256 these products from MCI, so while MCI's stand alone long-distance business  
257 suffered, its integrated business grew. When MCI began offering an integrated  
258 product in several states including Washington, in April 2002, it was able to do so  
259 without competition from the RBOCs, which were at that time precluded from  
260 offering in-region long-distance services. To meet the burgeoning demand for an  
261 "all-distance" product, MCI initially offered a bundle by purchasing UNE-P from  
262 incumbent local exchange carriers at TELRIC rates.

263 **Q. Why is MCI unable to remain an active and growing participant in the part**  
264 **of the market serving consumers who desire integrated products?**

265 A. Even with intense marketing efforts, the number of UNE-P lines MCI provided in  
266 individual states typically grew slowly even though MCI believed it was adding  
267 customer value. In part this was because, over time, CLECs like MCI were no  
268 longer alone in their ability to offer these bundled services. Once the RBOCs

269 entered the long-distance market, they quickly began offering integrated products  
270 and gained substantial market share. Moreover, consumers now and increasingly  
271 are also able to turn to cable companies for integrated products. In particular,  
272 cable operators have aggressive plans to deploy and market cable telephony  
273 services almost ubiquitously all over the country.

274 **Q. Did the regulatory environment that permitted MCI to offer bundled**  
275 **services change?**

276 A. Yes, it changed in several respects. First, Do-Not-Call legislation has had and  
277 continues to have a profound effect on MCI. Federal legislation enacted in 2003  
278 led to the establishment of a national Do-Not-Call registry, and within a year after  
279 the registry began to operate, 62 million telephone numbers had been registered  
280 on the national list. The effect of Do-Not-Call legislation and rules has been the  
281 removal of more than half of the potential customers from the reach of what had  
282 for many years been MCI's most effective and efficient consumer sales channel.

283 Additionally, the FCC's 2003 Triennial Review Order ("TRO") and  
284 related actions taken at the federal level changed the economics of MCI's  
285 approach to the consumer market. MCI had previously been able to purchase  
286 UNE-P at relatively low, TELRIC based prices. That is no longer true.

287 **Q. Has MCI negotiated commercial agreements with ILECs for the replacement**  
288 **of UNE-P?**

289 A. Yes. MCI has negotiated commercial contracts with Qwest, SBC and Bellsouth.  
290 MCI also has an interim agreement in place with Verizon until July 15, 2005, and  
291 is in negotiations with Verizon for a permanent agreement.

292

293 The commercial agreement with Qwest was MCI's first. The negotiations with  
294 Qwest were conducted in late 2003 and early 2004 in an atmosphere of pervasive  
295 uncertainty and business risk. MCI agreed to pay higher per line prices for a UNE-  
296 P replacement product than it was paying under the regulated UNE-P regime at the  
297 beginning of the contract term. Under the Qwest – MCI agreement, the prices  
298 increase each year. In order to be compensated for these higher costs, MCI has  
299 already increased the rates for UNE-P customers by adding an interstate carrier  
300 access charge, as I will discuss below. Given the escalations built into the  
301 agreement, it may well have to increase rates further. These agreements thus do not  
302 provide a long-term mechanism for MCI to succeed in the mass market in  
303 competition with facilities based providers. The resulting change in the economics  
304 of its consumer business has limited MCI's ability to continue that business  
305 indefinitely, and means that in any event MCI will no longer be a price leader for  
306 residential services.

307 **Q. Has MCI reduced its marketing for consumer and long-distance services?**

308 A. Yes. Nationally, at the peak of MCI's activity as a competitor for consumer local  
309 and long-distance services, MCI placed over [BEGIN HIGHLY  
310 CONFIDENTIAL] \*\*\*\*\* [END HIGHLY CONFIDENTIAL] hours



311 worth of telemarketing calls per month. Today, MCI places only [BEGIN  
312 **HIGHLY CONFIDENTIAL**] \*\*\*\*\* [END HIGHLY CONFIDENTIAL]  
313 hours per month, nationally, a reduction of [BEGIN HIGHLY  
314 **CONFIDENTIAL**] \*\*\*\*\* [END HIGHLY CONFIDENTIAL]. Because  
315 the decline in calling results in a diminished need for telemarketing  
316 representatives, MCI has been forced to close [BEGIN HIGHLY  
317 **CONFIDENTIAL**] \*\* [END HIGHLY CONFIDENTIAL] call centers, leaving  
318 [BEGIN HIGHLY CONFIDENTIAL] \*\* [END HIGHLY CONFIDENTIAL]  
319 open, and to close [BEGIN HIGHLY CONFIDENTIAL] \*\* [END HIGHLY  
320 **CONFIDENTIAL**] customer service centers, leaving [BEGIN HIGHLY  
321 **CONFIDENTIAL**] \*\* [END HIGHLY CONFIDENTIAL] open. MCI has  
322 reduced its overall mass market employee base from [BEGIN HIGHLY  
323 **CONFIDENTIAL**] \*\*\*\*\* [END HIGHLY CONFIDENTIAL] in January  
324 2002 to [BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\* [END HIGHLY  
325 **CONFIDENTIAL**] in February 2005. On March 1, 2005, after the FCC's  
326 decision in the Triennial Review Remand Order, MCI announced that it would  
327 close an additional [BEGIN HIGHLY CONFIDENTIAL] \*\*\* [END HIGHLY  
328 **CONFIDENTIAL**] customer service centers in May 2005.

329 In addition, because MCI no longer competes on a significant scale for  
330 new residential consumers, MCI no longer spends any money on any broadcast  
331 advertisements. Nationally, our spending on direct mail and print advertising has  
332 been reduced from a high of nearly [BEGIN HIGHLY CONFIDENTIAL] \*\*\*

333 \*\*\*\*\* [END HIGHLY CONFIDENTIAL] per month in early 2003 to [BEGIN  
334 HIGHLY CONFIDENTIAL] \*\*\*\*\* [END HIGHLY  
335 CONFIDENTIAL] in January 2005, a reduction of 90 percent. Spending on  
336 media has decreased from a high of over [BEGIN HIGHLY CONFIDENTIAL]  
337 \*\*\*\*\* [END HIGHLY CONFIDENTIAL] per month in the first part of  
338 2003 to [BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\* [END HIGHLY  
339 CONFIDENTIAL] for the month of January 2005. Total mass market overhead  
340 (sales, general, and administrative expenses) has been cut in half, from  
341 approximately [BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\* [END  
342 HIGHLY CONFIDENTIAL] per month in 2002 to less than [BEGIN  
343 HIGHLY CONFIDENTIAL] \*\*\*\*\* [END HIGHLY  
344 CONFIDENTIAL] per month in 2005.

345 The Washington-specific local service data shows a similar decline in  
346 marketing. For example, in July 2003 MCI made [BEGIN HIGHLY  
347 CONFIDENTIAL] \*\*\*\*\* [END HIGHLY CONFIDENTIAL]  
348 hours of telemarketing calls into Washington. In May of 2005, by contrast, MCI  
349 made only about [BEGIN HIGHLY CONFIDENTIAL] \*\*\*\* [END HIGHLY  
350 CONFIDENTIAL] hours of calls.

351 **Q. Has MCI had to take any other steps that are likely to hasten the decline in**  
352 **its market share?**

353 **A.** Yes, MCI has increased charges, and is likely to continue to do so in the future.

354 For example, in September 2004, MCI increased the Carrier Cost Recovery

355 Charge for stand-alone long-distance service to \$0.85. In January 2005, MCI  
356 added an interstate carrier access charge for local customers in Qwest territory by  
357 \$1.90, and followed this in March 2005, after the FCC's *TRRO* Order, with a  
358 \$1.90 increase in the remainder of the country.

359 **Q. What has been the effect on MCI's mass market business of these regulatory**  
360 **and technical changes?**

361 A. MCI's share of the mass market business is small and shrinking. This is so  
362 regardless of the way in which one might define the relevant "market" for mass  
363 market services. For example, although MCI was once a major player with  
364 respect to wireline stand-alone long-distance services, as the figures that follow  
365 demonstrate, MCI's participation in the wireline stand-alone long-distance  
366 component of the market has collapsed both nationally and in Washington.  
367 Moreover, the number of customers who want stand-alone long-distance service  
368 is shrinking, as I discuss later.

369 MCI's market share for its other products is even lower. MCI was never  
370 able to achieve more than limited penetration of the local market segment or the  
371 segment for bundled products, even through use of UNE-P. As the figures that  
372 follow demonstrate, MCI's participation in the stand-alone local portion of the  
373 market also has declined nationally, as has its share of customers seeking a  
374 bundled local and long-distance product.

375 **Q. Is it possible to measure the decline in MCI's mass market business?**

376 A. Yes. MCI's consumer business is in a continuing and irreversible decline on a  
377 national level, as well as in Washington. This is true whether evaluated in terms  
378 of revenues, minutes of use, or customers, and it is true across all of MCI's  
379 product lines. The following charts graphically define the scope of MCI's  
380 declining business, in terms of revenues, minutes of traffic carried by MCI, and  
381 lines.

382 [BEGIN HIGHLY CONFIDENTIAL]

383 RESIDENTIAL REVENUES

384 **MCI's mass market revenues shrank by 20% from 2003 to 2004**

385

2003	2004

386

387

	<i>JANUARY 2003</i>	<i>JUNE 2004</i>	<i>APRIL 2005</i>

388

389

390

391

392

393

**RESIDENTIAL MINUTES**

	<i>JANUARY 2003</i>	<i>JUNE 2004</i>	<i>APRIL 2005</i>

394

395

396  
397

**RESIDENTIAL LINES**

	<i>JANUARY 2003</i>	<i>JUNE 2004</i>	<i>APRIL 2005</i>

398  
399

**LOST BUSINESS**

400  
401  
402  
403

**Stand-Alone Residential Long Distance Accounts**


404  
405

**Integrated Local/Long Distance Lines**

406  
407


408

409 [END HIGHLY CONFIDENTIAL]

410 **Q. Is MCI's mass market business declining in Washington?**

411 A. Yes, the decline in MCI's consumer business that is occurring nationally is  
412 also occurring in Washington. For example, in Washington standalone long-  
413 distance customer usage (measured in minutes) dropped from over **[BEGIN**

414 **HIGHLY CONFIDENTIAL]** \*\* **[END HIGHLY CONFIDENTIAL]** million  
415 minutes in January 2003, to approximately **[BEGIN HIGHLY**  
416 **CONFIDENTIAL]** \*\*\*\* **[END HIGHLY CONFIDENTIAL]** million minutes  
417 in January 2004, to approximately **[BEGIN HIGHLY CONFIDENTIAL]** \*\*\*  
418 **[END HIGHLY CONFIDENTIAL]** million minutes in April 2005. Stand-alone  
419 long-distance accounts during this same period fell from approximately **[BEGIN**  
420 **HIGHLY CONFIDENTIAL]** \*\*\*\*\*  
421 \*\*\*\*\* **[END HIGHLY CONFIDENTIAL]**, and revenues from these accounts  
422 fell from approximately **[BEGIN HIGHLY CONFIDENTIAL]** \*\*\*\*\*  
423 \*\*\*\*\* **[END HIGHLY CONFIDENTIAL]**

424 **Q. Is that also true for MCI's residential local service business in Washington?**

425 **A.** Yes. In July 2004, our residential local access line count peaked at **[BEGIN**  
426 **HIGHLY CONFIDENTIAL]** \*\*\*\*\* **[END HIGHLY CONFIDENTIAL]**.  
427 This included **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** \*\*\*\*\*  
428 **[END HIGHLY CONFIDENTIAL INFORMATION]** access lines in Qwest  
429 territory and **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** \*\*\*\*\*  
430 **[END HIGHLY CONFIDENTIAL INFORMATION]** access lines in Verizon  
431 territory. Until that point, our access line count for local service in Washington  
432 was on the rise. Since then, in Qwest territory, except for slight increases in  
433 December 2004 and March and April 2005, our access line count has steadily  
434 declined. At the end of April 2005, MCI provided residential local service to  
435 **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** \*\*\*\*\* **[END**

436 **HIGHLY CONFIDENTIAL INFORMATION]** access lines in Washington.

437 This includes **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** \*\*\*\*\*

438 **[END HIGHLY CONFIDENTIAL]** access lines in Qwest territory and **[BEGIN**

439 **HIGHLY CONFIDENTIAL INFORMATION]** \*\*\*\* **[END HIGHLY**

440 **CONFIDENTIAL INFORMATION]** access lines in Verizon territory.

441 **Q. In the last several months MCI has actually increased the number of its**  
442 **residential local service customers in the Verizon territory of Washington.**

443 **Can you explain how that is consistent with MCI's position that its Mass**  
444 **Markets Business is in a "continuing and irreversible state of decline?"**

445 **A.** Yes. MCI has only recently begun serving residential local customers in Verizon  
446 territory in Washington in December 2003 and has a very small base of customers  
447 there. The growth in Verizon territory is overshadowed by the decline in the  
448 Qwest territory in Washington, where MCI has provided service for a much  
449 longer period. Only 10% of our residential access line count is in Verizon  
450 territory. Overall in Washington, combining MCI's presence in the Qwest and  
451 Verizon territories, our access line count has declined since it reached its peak in  
452 July 2004. Currently, we provide local service to less than 2% of the total  
453 statewide access lines. Also, the local/integrated line count number is just one  
454 part of our overall mass market picture in Washington and nationally. When our  
455 local and long distance numbers are evaluated together, we see continuing decline  
456 overall.

457 **Q. Can you draw conclusions from these data?**

458 A. MCI is no longer a significant player in the residential voice services portion of  
 459 the market. MCI is not now, nor could it become, a price leader for residential  
 460 services. Further, MCI's significance in this market will likely decline further as  
 461 the effects of the technological, market and regulatory changes I have discussed  
 462 become more pronounced, and new, nontraditional players increasingly begin  
 463 providing voice applications.

464 **Q. How does MCI address small business customers? Are the trends similar?**

465 A. In addition to its residential customers, MCI sells local, long-distance, integrated,  
 466 and DSL service to small business customers, through its mass market marketing  
 467 channels. These customers purchase off-the-shelf, non-specialized products.

468 Like its consumer DSL offering, MCI's small business local service  
 469 offering has just a minor presence. At the end of April 2005, MCI had only  
 470 **[BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\* [END HIGHLY**  
 471 **CONFIDENTIAL]** small business local customers lines served via UNE-P  
 472 nationwide, and only **[BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\***  
 473 **\*\*\*\*\***  
 474 **\*\*\*\*\* [END HIGHLY**  
 475 **CONFIDENTIAL].** MCI is not advertising its local small business offering, and  
 476 its line count has remained relatively constant in recent months. And while MCI  
 477 had approximately **[BEGIN HIGHLY CONFIDENTIAL] \*\*\*\*\* [END**  
 478 **HIGHLY CONFIDENTIAL]** small business stand-alone long-distance  
 479 customers nationwide at the end of January 2005, that customer count has



480 declined from **[BEGIN HIGHLY CONFIDENTIAL]** \*\*\*\*\* **[END**  
481 **HIGHLY CONFIDENTIAL]** one year ago, **[BEGIN HIGHLY**  
482 **CONFIDENTIAL]** \*\*\*\*\* **[END HIGHLY CONFIDENTIAL]** six months  
483 ago, and it continues to decline today.

484 **Q. Can you summarize your understanding of MCI's role in the residential**  
485 **market in Washington?**

486 A. MCI will become an increasingly less significant part of the marketplace, and  
487 other intermodal competitors will increasingly provide the competition in the  
488 mass market.

489

490 **IV. MCI'S ENTERPRISE BUSINESS**

491

492 **Q. What is the enterprise segment of the telecom market?**

493 A. Generally speaking, the enterprise segment is the market for large and medium  
494 business and institutional customers. For the purposes of this testimony, I will  
495 use the term "enterprise" to refer to large business customers, federal and large  
496 state government customers, and medium-sized business and government  
497 customers. Within this category, so-called "large enterprise customers," which  
498 generally have more than 1,000 employees and spend more than \$2 million a year  
499 on communications services (although not necessarily all with MCI), account for  
500 more than 85 percent of MCI revenue for all commercial and international  
501 customers.

502 **Q. What are the characteristics of the enterprise segment?**

503 A. There are several key characteristics that enterprise customers have in common.  
504 First, typically they have multiple business locations around the United States,  
505 and often in other countries as well. For instance, companies with significant

506 presence in Washington, like Microsoft and Boeing, have worldwide  
507 communications needs. Many of MCI's largest global customers, like  
508 Daimler/Chrysler, have their headquarters outside the United States. Second,  
509 these customers' networking needs are complex and often individualized. Unlike  
510 mass market customers, enterprise customers do not select from among a number  
511 of bundled "off the shelf" packages, but rather look for customized solutions that  
512 fit their particular business objectives. Third, enterprise customers are highly  
513 sophisticated. They often have large, in-house information technology ("IT")  
514 departments with substantial technical expertise of their own. As described in  
515 what follows, these customers are willing to adopt new technologies that improve  
516 efficiency and create new business opportunities.

517 **Q. What services does MCI provide to its enterprise customers?**

518 A. Enterprise customers in Washington and across the country demand extensive,  
519 sophisticated packages of services, connecting multiple locations with reliable and  
520 secure connections. They generally require a broad range of services, including  
521 voice, various data services such as ATM and frame relay, wireless, IP, call center  
522 services, and web hosting. It is important to note, though, that enterprise  
523 customers often do not distinguish between different types of networks and  
524 services. They increasingly do not want separate voice and data networks, but  
525 instead want integrated networks that can provide both. In fact, traditional voice  
526 services now provide less than half of MCI's revenue from large enterprise  
527 customers, and that proportion is steadily declining. In addition to network

528 services, enterprise customers also require advanced features, such as intelligent  
529 call routing and integrated voice response systems, and value-added capabilities  
530 such as security services. Examples of these security services are e-mail filters,  
531 firewalls, intrusion detection and protection, denial-of-service mitigation, and  
532 security scans. Although enterprise customers may purchase similar types of  
533 services, one of the key characteristics of the enterprise segment is that each  
534 customer has unique requirements. Each may purchase a particular combination  
535 of services tailored to meet its business objectives, customized individual  
536 services, or a customized integration of services and applications. Many  
537 enterprise customers also require providers to guarantee specific service levels.

538 **Q. How do enterprise customers procure these services?**

539 A. The procurement process used by enterprise customers reflects both their  
540 sophistication and their diverse needs. Enterprise customers will be advised by  
541 their in-house IT departments, and will often employ consultants to help them  
542 determine which communications services will best fit their particular business  
543 objectives. Once this determination has been made, the enterprise customer  
544 usually procures services for multiyear periods through a formal request for  
545 proposals (“RFP”). The RFP is a long and detailed document that describes the  
546 package of services and specific requirements that the customer wishes a  
547 communications provider to supply. In a process that can take months, proposals  
548 are reviewed by the customer’s IT department and, typically, by top executives  
549 such as the Chief Information Officer or Chief Financial Officer.

550           Because no single provider has network facilities everywhere, enterprise  
551 customers often need to procure services (either directly or indirectly) from  
552 multiple providers. Generally, a primary carrier who submits the winning bid  
553 under the RFP will in turn secure bids from secondary carriers. Enterprise  
554 customers also directly seek out more than one service provider in order to ensure  
555 redundancy in the case of a network outage or other problem, or for other  
556 business reasons. The nature of the procurement process, by which large  
557 organizations leverage their sophistication and financial strength to secure low  
558 prices and high quality, combined with the large revenues at stake, help make the  
559 enterprise segment a highly competitive segment of the telecom industry.

560 **Q. What level of competition currently exists in the enterprise segment?**

561 A. The enterprise segment is widely recognized as a highly competitive segment of  
562 the telecom industry, and it is expected to remain so. Enterprise customers  
563 generate large revenues for service providers, so there is a great incentive for  
564 many carriers to compete for this business. Moreover, because primary bidders  
565 generally need to secure network access from other carriers, one of their  
566 responsibilities is to aggregate and integrate the network facilities of the various  
567 secondary carriers. This means that the primary provider does not necessarily  
568 need to be a facilities-based provider and that new entrants can successfully bid  
569 for large RFP contracts. The competition for enterprise business in Washington  
570 and across the country now includes international carriers, network consolidators,  
571 IP/Virtual Private Network providers, wireless carriers, and major software

572 providers, in addition to the traditional competitors in this area such as MCI,  
573 AT&T, and Sprint.

574 **Q. How many enterprise accounts does MCI currently serve in Washington?**

575 A. As of February 2005, MCI provided services to [BEGIN HIGHLY  
576 CONFIDENTIAL INFORMATION] \*\*\*\* [END HIGHLY  
577 CONFIDENTIAL INFORMATION] enterprise customers in Washington state.

578 As of March 2005, MCI served [BEGIN HIGHLY CONFIDENTIAL  
579 INFORMATION] \*\*\*\* [END HIGHLY CONFIDENTIAL  
580 INFORMATION] enterprise access lines in Washington, including [BEGIN  
581 HIGHLY CONFIDENTIAL] \*\*\*\*\* [BEGIN HIGHLY  
582 CONFIDENTIAL INFORMATION] access lines in Verizon territory and the  
583 great majority, [BEGIN HIGHLY CONFIDENTIAL INFORMATION]  
584 \*\*\*\*\* [END HIGHLY CONFIDENTIAL INFORMATION]  
585 access lines in Qwest territory.

586 **Q. Does Verizon compete with MCI for these enterprise customers' business in**  
587 **Washington?**

588 A. Almost never. Verizon rarely provides services to enterprise customers outside of  
589 its region. Indeed, even within its region, most of these customers have a national  
590 (or even a global) reach, and (with the notable exception of its wireless services)  
591 Verizon does not have the footprint outside of its region to offer services on this  
592 basis.

593 **Q. What are the foreseeable trends in this area of the telecommunications**  
594 **market?**

595 A. The most significant trend is that enterprise customers are relying less on  
596 traditional voice services and increasingly demanding a much wider range of  
597 services, platforms, and applications from an increasing number of suppliers. As  
598 indicated, enterprise customers now spend more on data and wireless services  
599 than they do on traditional, wireline voice services, and that disparity is  
600 increasing. Reflecting this trend, the percentage of MCI's revenues associated  
601 with IP and other advanced services is steadily increasing while the percentage of  
602 revenue associated with voice and older data services is decreasing. A second  
603 notable trend is a downward trend in pricing. The major categories of services  
604 purchased by enterprise customers, including voice, ATM, frame relay, private  
605 line, and IP services, all continue to drop in price at a rapid pace. Some of the  
606 steepest declines are seen in the most advanced services, including high-speed  
607 private line services and Internet access services.

608 **Q. How does the market for medium-sized businesses differ, if at all, from the**  
609 **market for large enterprise customers?**

610 A. The market for medium-sized businesses is not very different from the market for  
611 large enterprise customers. While smaller than the very large enterprise  
612 businesses responsible for most of MCI's business revenues, these medium-sized  
613 businesses still have sufficient demand for services that they are targeted by  
614 specialized firms that do not seek to compete for the mass market. Many of these

615 businesses purchase the same types of integrated packages as larger enterprise  
616 customers, and they utilize similar procurement methods. Others might purchase  
617 more commoditized packages, but they do so in volumes sufficient to warrant  
618 specialized attention from providers, and they buy them in combination with other  
619 services. Competition to provide services to medium-sized businesses is similar  
620 to what I described earlier. The same players are involved, as well as cable  
621 companies, value-added resellers, and especially CLECs, who focus more intently  
622 on medium-sized businesses.

623 **Q. Can you summarize your understanding of MCI's role in the enterprise**  
624 **market in Washington?**

625 A. MCI's business is concentrated in the large enterprise segment of the market, and  
626 MCI is just one of a number of entities generating intense competition for  
627 enterprise customers.

628

629 **V. BENEFITS OF THE MERGER**

630

631 **Q. What effects will the merger have on competition in Washington?**

632 A. The merger will have a pro-competitive effect and will not cause competitive  
633 harm in Washington. In the enterprise market, MCI's and Verizon's networks,  
634 services, and areas of expertise are highly complementary and not overlapping.  
635 MCI is strong in the enterprise sector; Verizon is not. MCI operates a large  
636 Internet backbone network; Verizon does not. MCI has no wireless assets and



637 offers no wireless services to enterprise customers; Verizon operates a large and  
638 successful wireless business. Thus, their combination will benefit customers by  
639 enabling the merged entity to operate at lower costs, to develop high-quality  
640 innovative services, and to deploy those services rapidly. It will bring Verizon,  
641 with all of its expertise and financial resources, into the Washington enterprise  
642 market, and the combined company will be able to offer a broader and more  
643 complete array of services than either Verizon or MCI is positioned to offer on its  
644 own. And, because MCI's and Verizon's facilities and businesses in the state  
645 generally do not overlap, the merger will not result in a lessening of competition  
646 in the enterprise market. Moreover, the merged entity will not occupy a dominant  
647 position or otherwise be in any position to stifle growth in competition. Changes  
648 in technology and other developments have led to increased competition in all  
649 market areas for all types of customers, and MCI and Verizon do not now  
650 compete head-to-head for enterprise business in Washington. In the mass market,  
651 the continuing decline of MCI's national mass market business results from  
652 factors unrelated to the merger and means that MCI will be an increasingly less  
653 important competitor for mass market customers in Washington. This continuing  
654 decline, whether in the near future or following the merger with Verizon, will not  
655 substantially change the competitive balance in Washington.

656 **Q. What do MCI and Verizon bring to the combined company?**

657 A. The contributions of Verizon and MCI to the merged company reflect their  
658 respective focuses to date and are highly complementary. MCI has a global fiber

659 optic network and global data capabilities. One of MCI's most valuable assets is  
660 its considerable Internet Protocol backbone and IP-related expertise. In recent  
661 years, MCI has made a multi-billion dollar investment in developing IP-based  
662 technologies and applications to help businesses shift from voice-based to IP-  
663 based services. Verizon does not have a substantial Internet backbone or  
664 interLATA transmission facilities. On the other hand, Verizon Wireless has a  
665 similarly extensive wireless business and network, while MCI has no wireless  
666 presence.

667 The two companies' services are as complementary as their assets.  
668 Verizon largely focuses on local and regional services, while MCI focuses on  
669 services for large enterprise customers with a global reach. As a result of this  
670 focus, MCI brings strong relationships with enterprise customers and account  
671 teams with in-depth understandings of their customers' businesses and unique  
672 communications needs.

673 **Q. How will the combined company benefit enterprise customers?**

674 A. The combined company will be in a strong financial position to invest in the  
675 existing IP network at a lower cost of capital than MCI could obtain on its own.  
676 This increased investment will enable the new company to increase network  
677 capacity, extend network reach, and add new capabilities to the network. Such  
678 investment will become more attractive to the combined company because it will  
679 be able to recover the costs associated with product development and network

680 expansion across a larger base of customers. Simply put, the merger will bring to  
681 Washington all of the capabilities and resources of Verizon.

682 These strengths will benefit enterprise customers. The new company will  
683 be able to develop and deploy brand new services more rapidly than either  
684 company could on its own. Especially promising in this regard is the  
685 development and deployment of mobile IP services. These services represent a  
686 combination of two prominent trends in telecommunications today: the shift to IP-  
687 based services and the shift to wireless communication. With mobile IP services,  
688 customers would have corporate mobility, allowing existing applications and data  
689 to be accessed by workers, no matter where they are. New applications could be  
690 developed that would exploit this newfound mobility. MCI has attempted to  
691 explore this promising field, but has made little progress to date because it lacks a  
692 wireless network. A combined company with MCI's IP backbone and Verizon's  
693 wireless network would have the essential infrastructure to deploy mobile IP  
694 devices. The company would also have the significant in-house expertise needed  
695 to overcome the technical challenges to mobile IP services.

696 **Q. How will the combined company benefit government customers and impact**  
697 **state and national security?**

698 A. The transaction will greatly benefit government customers. The merged company  
699 will be able to provide an integrated suite of services that can better serve  
700 government customers. In addition, the transaction will promote domestic  
701 security by enhancing investment in the communications infrastructure that is

702 used by the Departments of Defense and Homeland Security, as well as other  
703 federal and state agencies, and ensuring that the crucial networks remain robust  
704 and technologically advanced.

705 **Q. Will the combined company be in a dominant competitive position or**  
706 **otherwise stifle competition in Washington?**

707 A. Not at all. Because MCI's business in Washington is primarily complementary  
708 to Verizon's, the transaction will not damage competition in any part of the  
709 marketplace in Washington.

710 More specifically, with respect to the mass market, with few exceptions,  
711 MCI's business is already in decline due to a variety of factors unrelated to this  
712 transaction, and MCI would not, absent the merger, be a significant competitor  
713 going forward in this market. Indeed, as the facts discussed above plainly  
714 demonstrate, in the absence of this transaction MCI's participation in the market  
715 would consist largely of serving its dwindling legacy customer base and  
716 managing its decline as a provider of mass market services. In addition, this  
717 transaction will not affect the rapid growth of intermodal alternatives (which MCI  
718 does not offer) such as cable and wireless, which are major factors in Washington  
719 today and will provide the most significant competition for mass market  
720 customers in the future. For instance, in Washington, cable companies have  
721 deployed two-way broadband networks that were initially used to provide high-  
722 speed data services, but are now increasingly being used to provide voice  
723 services. Wireless carriers have secured an increasing percentage of voice traffic,  
724 spurring some customers to give up their landline phones altogether. In addition,  
725 new VoIP providers have deployed services over broadband networks and IP  
726 backbones, offering services such as personal conferencing and locate-me

727 services. Accordingly, the mass market will retain its lively competitive character  
728 after the merger is complete; the transaction simply reflects a transition in the  
729 market caused by unrelated technological and regulatory factors that will continue  
730 to reshape the market whether or not there is a merger between MCI and Verizon.

731 With respect to the enterprise market, and in particular with respect to the  
732 large enterprise segment that is at the center of MCI's business in Washington, the  
733 combined company will be just one of many competitors. As discussed above,  
734 enterprise customers are sophisticated in their approach to both identifying  
735 potential vendors and negotiating extremely competitive pricing through the RFP  
736 process.

737 **Q. Does this conclude your testimony?**

738 A. Yes.