

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the matter of the Petition of)
)
MCI WORLDCOM, INC. AND)
SPRINT CORPORATION) Docket No. UT- 991991
)
)
for an Order (1) Disclaiming Jurisdiction)
or (2) in the Alternative, Approving the)
Transfer of Control of Sprint Corporation's)
Washington Operating Subsidiaries to)
MCI WorldCom, Inc.)

REBUTTAL TESTIMONY OF SALLY MCMAHON

On behalf of

MCI WORLDCOM, INC.

April 21, 2000

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

2 A. My name is Sally McMahon. I am Vice President of Consumer Affairs and Quality for
3 MCI WORLDCOM, Inc. (“MCI WorldCom” or the ”Company”). My business address is
4 701 12th Street, South Arlington, Virginia 22202.

5 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
6 **BACKGROUND.**

7 A. I graduated with a Marketing degree from the University of Delaware in 1978. I have
8 worked with MCI WorldCom or its predecessor for 20 years, having joined MCI in 1980.
9 I began working with customer service at the regional level and moved on to a national
10 role in developing programs to provide customer-oriented services. My present position
11 was created in October 1999. Prior to that I was the Director of Financial Services.
12 Throughout my career I have been involved in the delivery of products and services
13 responsive to customer needs and in implementing internal quality standards to ensure the
14 timely delivery of high quality, consistent services to the customer.

15 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.**

16 A. As Vice President of Consumer Affairs and Quality for MCI WorldCom, my main goal is
17 to ensure that the Company delivers valuable and valued services to the residential
18 customer, including long distance and local service. To achieve that goal, I serve a dual
19 role. First, I have an external role of interacting with the public at large, including state
20 and federal regulatory agencies and consumer groups. MCI WorldCom appreciates the
21 importance of customer satisfaction in today’s market place, of working with regulators to
22 hear public concerns, and of demonstrating to regulators our ability to self-regulate.

1 Second, I have an internal responsibility of directing the development of programs and
2 standards to ensure that the Company not only consistently meets quality standards, but,
3 also, never rests on its past achievements and continually raises the bar in order to
4 maintain high quality products and services. In my role as Vice President of Consumer
5 Affairs and Quality, I am the liaison between the public and public agencies like this
6 Commission and the internal business. I report directly to the President of Mass Markets
7 (the business unit handling residential and small business customers) and have the
8 responsibility of implementing business policies and strategies responsive to customer
9 needs, consumer trends, and regulatory concerns. The creation of my position and its
10 expansive responsibility is representative of the Company's longstanding commitment to
11 providing premier service to our customers.

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

13 A. The purpose of my testimony is to rebut the testimony of Drs. Blackmon and Hausman
14 suggesting that the post-merger WorldCom would have the ability to raise prices to
15 residential and small business long-distance customers in the State of Washington. I also
16 respond to Dr. Blackmon's observations regarding MCI WorldCom's customer service
17 record in Washington and address his concerns regarding the post-merger company's
18 commitment to ensure the highest level of service quality.

19
20 My testimony will cover several principal areas. First, I will discuss MCI WorldCom's
21 place in the traditional long distance market. Then I will cover changes taking place in the
22 industry and how those changes are benefiting the company's residential customers in

1 particular by providing MCI WorldCom with continuing incentive to offer service to mass
2 market customers at competitive rates. You will see from our discussion of the first two
3 points why the company's commitment to quality is imperative. Third, I will discuss how
4 the company has addressed customer service needs by programs to ensure the highest
5 quality customer service.

6
7 In summary, MCI WorldCom will continue to aggressively offer competitive services for
8 all Washington consumers. The success of our business relies on customer satisfaction
9 through compelling rates, meaningful products, and informed and professional customer
10 service and sales experiences.

11
12 **Q. DESCRIBE MCI WORLDCOM'S ROLE IN THE TRADITIONAL VOICE**
13 **MARKET TODAY.**

14 A. MCI WorldCom is a price leader, offering some of the most competitive rates in the
15 industry. We compete aggressively within the local toll market, the long distance market,
16 the international market, the calling card, collect and operator services market and the dial
17 around market with literally hundreds of carriers. This vibrantly competitive traditional
18 voice market is very complex – and it is growing more complex with new technologies
19 bringing in more options for consumers and competitors for MCI WorldCom.

20

1 **Q. PLEASE DESCRIBE THE FACTORS TAKING PLACE TODAY THAT ARE**
2 **CHANGING THE NATURE OF THE RESIDENTIAL LONG DISTANCE**
3 **MARKET.**

4 A. There are fundamental changes in technology, regulation, and perhaps, more importantly,
5 consumer behavior, that are causing dramatic shifts in the traditional long distance market
6 for residential customers. The Internet, electronic mail, instant messaging, and the
7 increasing acceptance of wireless communications are blurring the boundaries of the long
8 distance marketplace. As Mr. Porter, Dr. Kelley, and Mr. Kapka pointed out in their
9 testimonies, these changes are blurring the historical distinctions between long distance,
10 local service and the manner in which these services are being offered. We, as well as
11 other companies, believe that an “all distance” market is developing, if not already here.

12
13 Of course, there are an increasing number of long distance carriers that are offering very
14 competitive rates and service offerings. Local exchange carriers are beginning to gain
15 entry into long distance (Bell Atlantic in New York) and GTE is already providing local
16 and long distance in integrated service packages. AT&T is offering wireless service
17 packages which include a bundle of minutes of either local or long distance for a set fee in
18 addition to provisioning local through their cable TV assets.

19
20 But some of the most overlooked and, in my opinion, most significant changes are coming
21 from outside traditional industry players. The Internet and wireless devices, for example,
22 have changed many people’s calling behavior. Instead of making a “long distance” call

1 from a landline phone, a consumer may now decide to make a cell phone call or perhaps
2 send an electronic message over the Internet. A group of people may communicate over
3 distances great or small through instant messaging. Any number of new companies, some
4 big and some small are offering these new forms of communication, which may cover
5 “long distance,”. The many alternative forms of communications today are literally
6 changing the way many people think about communicating. Wireless devices allow
7 consumers to communicate anywhere and at anytime. The local/long distance distinction
8 has little meaning in this context. At one time, when long distance pricing was much
9 higher than today, consumers may have thought long and hard before making a pricey
10 long distance call. Price does not create such constraints today.

11
12 Since consumers have even more options, to remain competitive, MCI WorldCom must
13 offer a compelling value proposition – lower and lower rates, better and more effective
14 customer service.

15 **Q. HOW ARE MCI WORLDCOM CUSTOMERS RESPONDING TO THESE**
16 **CHANGES?**

17 A. Analysis of our own installs shows that there is a segment of customers who will switch
18 often if they perceive a better calling plan. Industry reporting shows that over 60% of
19 MCI WorldCom customers state that price is their reason for changing carriers. Since
20 they are rewarded for switching with more cost-effective rates, it is not surprising that, in
21 1999, 44% of our installs came from customers that had been a customer within the prior
22 12 months.

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MCI WorldCom or any future entity must offer cost-effective plans and high quality service to maintain and grow its share of the market. MCI WorldCom and Sprint want and need to be able to offer integrated packages of services (local, long distance, wireless, Internet and broadband) to customers. In order to grow in the market place, we need to continue to offer the best rates and service in the market for the consumer.

Q. DO YOU HAVE ANY SPECIFIC EXPERIENCE YOU WOULD LIKE TO DESCRIBE THAT SHOWS THAT CUSTOMERS ARE PARTICULARLY INTERESTED IN RECEIVING BUNDLED LOCAL AND LONG DISTANCE SERVICES?

A. Yes. First, we have seen a great deal of consumer interest in GTE Washington's bundled package of local and long distance service. A significant number of our long-distance customers are selecting GTE Washington because of its combined local and long distance offering. This experience is not unexpected or surprising. In New York, where Bell Atlantic recently gained long distance entry, and in Connecticut where SNET has been providing long distance for about five years, we have seen the same type of consumer interest in obtaining combined local and long distance service.

1 **Q. ARE WASHINGTON RESIDENTIAL CUSTOMERS RECEIVING BENEFITS**
2 **FROM THE CHANGES TAKING PLACE IN THE INDUSTRY?**

3 A. Yes. Rates are falling and new bundled products are available. With regard to
4 Washington specifically, I have examined the trend in average revenue per minute derived
5 from Washington customers since May 1997. That analysis shows that, from May 1997
6 through November 1999, the average residential customer's effective rate per minute
7 dropped over 32% in Washington. Because of this steep effective rate per minute decline
8 since May 1997, MCI WorldCom's Washington residential users have saved millions of
9 dollars. And on a national level, the overall cost to our customers of domestic calling,
10 including interstate calling, has dropped 29% in nearly three years.

11 **Q. HOW DOES MCI WORLDCOM'S ADVERTISING AND TELEMARKETING**
12 **BENEFIT MOST CUSTOMERS?**

13 A. MCI WorldCom believes that consumers can best protect their interest in high quality
14 service and reasonable rates if they are informed about the options that exist in the
15 marketplace. MCI WorldCom uses both advertising and its telemarketing to educate the
16 residential customer by building awareness of cost-effective plans available through the
17 company. Advertising is the first step. Advertising makes the consumer aware of MCI
18 WorldCom and of the fact that competitively priced calling plan options are available. The
19 next step involves the efforts of our sales force to reach out to prospective customers to
20 explain the details of the calling plans. The efforts of advertising and telemarketing
21 effectively communicate valuable proposals to Washington consumers. About 70% of
22 MCI WorldCom's sales are made via telemarketing.

1 In other instances, people call in to inquire about plans. Our customer service
2 representatives are trained to ask potential customers about their existing calling patterns
3 and spending levels as part of the sales inquiry process. Based on the customer's
4 response, the representative then suggests one or more calling plans and explains the rates,
5 fees, or minimum charges that apply. This way the customer can decide if the product
6 suits his or her calling needs. In both instances, representatives try to ensure that
7 customers choose the plan best suited for their needs so that they will remain satisfied
8 MCI WorldCom customers.

9 **Q. PLEASE EXPLAIN HOW THE PRICING DEMANDS OF RESIDENTIAL**
10 **CUSTOMERS ARE ADDRESSED BY MCI WORLDCOM'S CALLING PLANS?**

11 A. Nationally, more than 80% of MCI WorldCom customers are on long distance calling
12 plans that provide a more cost-effective rate per minute than "basic," "Dial 1" long
13 distance residential service. By comparison, I estimate that only about 50% of AT&T's
14 residential customers are on calling plans, as opposed to "standard" rates. Washington
15 residential customers obviously are among those who benefit from this movement to more
16 cost-effective plans. Not only are prospective customers being sold our most competitive
17 options, but also existing customers are taking advantage of MCI WorldCom's new
18 program. For example, in 2000, we expect approximately 10% of our customer base to
19 migrate to more cost-effective plans. Due to the competitive nature of the long distance
20 market, the company rolls out a major new calling plan approximately every 12 to 18
21 months. We do not expect this to change as a result of the merger of MCI WorldCom and
22 Sprint. This life cycle is largely based on consumer receptivity, competitive activity, and

1 sales channel performance. Our data show that over 60% of our customers learn of our
2 calling plans through telemarketing outreach.

3
4 **Q. PLEASE DESCRIBE MCI WORLDCOM'S POLICIES ON CUSTOMER**
5 **SERVICE AND QUALITY.**

6 A. Excellent quality is a required ingredient in being able to compete effectively in this
7 market. The company places high standards in its policies of providing valuable customer
8 service and excellent quality. While we have recently enhanced our program, I want to
9 make clear that I believe that the company has always offered good quality plans and
10 services. Being a market leader, MCI WorldCom processes a significant volume of
11 transactions. Nationally, our percentage of complaints to state agencies (termed
12 "escalations") is only .03% of total customer installations. However, we constantly strive
13 for zero escalations.

14 **Q. WHAT NEW PROGRAM HAS MCI WORLDCOM INSTITUTED TO IMPROVE**
15 **CUSTOMER SERVICE AND QUALITY CONTROL?**

16 A. In the first quarter of 2000, the company implemented nationally a series of enhanced
17 quality processes designed to target those issues most frequently cited by consumers. The
18 company has, among other things:

- 19 • Adopted a new credit policy that will require MCI WorldCom's customer service
20 representatives to be more responsive to customers and to issue credit for rate
21 misunderstanding and concerns regarding the authorization of service, in many cases
22 while talking to the customer on the customer's initial call;

- 1 • Established a new telemarketing call “wrap-up” that will review, at the end of the sales
2 call, products and services ordered by the customer, along with the associated rates to
3 better ensure clear communication and customer understanding;
- 4 • Promulgated new employee disciplinary procedures and new employee compensation
5 formulas that provide positive incentives for representatives to complete good sales
6 and disincentives for inappropriate conduct;
- 7 • Increased its monitoring of telemarketing representatives and its review of potential
8 sales;
- 9 • Implemented enhanced third party verification (TPV) processes, with increased
10 customer interaction and new internal order verification procedures; and
- 11 • Enacted a new Telemarketing Code of Conduct that all telemarketing representatives
12 must sign after completing initial training and again on an annual basis after attending
13 additional training.

14 MCI WorldCom is confident that these measures, along with those already in place, will
15 improve customer service and ensure quality sales.

16

17 **Q. DR. BLACKMON EXPRESSES CONCERN THAT MCI WORLDCOM’S**
18 **CUSTOMER SERVICE WILL NOT IMPROVE AS A RESULT OF ITS**
19 **ACQUISITION OF SPRINT. PLEASE EXPLAIN HOW THE QUALITY OF**

1 **SERVICE TO CUSTOMERS WILL BE MAINTAINED OR IMPROVED BY THE**
2 **MERGER.**

3 A. As we have described earlier, the vibrantly competitive market will continue to force all
4 carriers to focus on quality. MCI WorldCom must monitor the quality of its service plans,
5 the manner in which it sells those plans, and the ongoing service it provides. Sprint has
6 been highly regarded for its customer service, and we intend to build on our respective
7 strengths and capabilities after the merger is completed. We will not grow *or even remain*
8 *in place* unless we continue to be competitive. I want to emphasize that, post-merger, our
9 commitment to earning our customers' business and loyalty will continue to be a primary
10 focus. We will continue to evaluate existing quality processes and look for opportunities
11 to improve the delivery of quality service to our customers. We feel confident that this
12 ongoing internal oversight combined with regular and open communication with
13 regulators will result in a significant increase in consumer satisfaction. Responding to
14 legitimate concerns and needs of the public is simply good business.

15 **Q. HOW WILL THE COMPANY RESPOND TO FUTURE CUSTOMER**
16 **COMPLAINTS?**

1 A. MCI WorldCom will initiate a review of all complaints alleging unauthorized PIC changes
2 by the company, which were submitted by a state or federal agency in the past year. In all
3 cases where the company concludes that an unauthorized PIC change occurred, it will
4 promptly issue credits pursuant to the policy described above, and it will take appropriate
5 disciplinary action against the telemarketing representative in question, consistent with the
6 standards set forth in the program.

7

8 **Q. WHAT HAS BEEN THE EFFECTIVENESS OF THESE NEW UNDERTAKINGS**
9 **TO IMPROVE CUSTOMER SERVICE AND QUALITY CONTROL?**

10 A. Over the course of the first quarter of 2000, we have implemented all of the
11 aforementioned quality improvements and our preliminary analysis shows significant
12 progress. The rate of calls into our customer service centers is down 15%, repeat calls,
13 which often reflect a level of dissatisfaction with the initial contact, are down 14%, and
14 positive customer service exit surveys are at their highest levels in 7 months.

15

16 Improved customer service will lead to a dramatic decrease in escalations. We already
17 have seen a decrease in escalations nationwide since the rollout of the program. Indeed,
18 we received 21% fewer agency escalations in Washington in the first quarter of 2000 than
19 in the fourth quarter of 1999. This is true notwithstanding an increase in our Washington
20 customer base during the same time period.

21

1 **Q. IN WASHINGTON, AFTER THE MERGER, HOW WILL MCI WORLDCOM**
2 **MAINTAIN OR IMPROVE THE QUALITY OF SERVICE TO ITS**
3 **CUSTOMERS?**

4 A. MCI WorldCom recognizes that consumer protection is a vital part of this Commission's
5 responsibilities. We believe, too, that assisting the Commission in its consumer protection
6 role is one of our responsibilities. In Washington, we believe that we can accomplish
7 improved quality of service through a combination of internal monitoring and consultation
8 with the WUTC and Public Counsel in the post-merger environment. For example:

9
10 MCI WorldCom can identify Washington customer complaints that are received by either
11 the WUTC or the FCC and are forwarded to MCI WorldCom's agency escalation group.
12 Complaints will be sorted by type of complaint, so that the empirical data about customer
13 service can be collated and analyzed. This information will enable MCI WorldCom to
14 deploy customer service resources to address the greatest customer need, and thereby
15 improve overall customer satisfaction.

16
17 Complaints from Washington customers will be sorted by category. Categories will
18 include tangible service issues, as well as customer contact issues. MCI WorldCom will
19 monitor the monthly volumes of each category of complaint.

20
21 The monthly figures for each category will be compared over time to identify any trends
22 that may be developing. The identification of trends will enable MCI WorldCom to take a

1 proactive approach to customer service. Trends will be analyzed to determine the trend
2 driver. Some drivers are only temporary, while others require medium- or long-term
3 solutions.

4
5 MCI WorldCom will offer to the WUTC staff and Public Counsel the opportunity to
6 review the results of its monthly compilation of Washington complaints, its trend analysis,
7 and solutions. This type of reporting does not exist today, but is intended to provide
8 relevant information and analyses on a timely basis. The monthly trend analysis will enable
9 MCI WorldCom and the staff to monitor the quality of service after the merger is
10 completed. MCI WorldCom's identification of complaints by category should assure the
11 WUTC Staff that every type of customer-affecting situation is being identified and
12 addressed by MCI WorldCom.

13
14 In addition, MCI WorldCom will apprise the Commission staff of its strategies for
15 addressing and reducing the number of customer complaints. MCI WorldCom currently
16 participates in a monthly telephone conference with WUTC staff to discuss customer
17 service issues generally. MCI WorldCom suggests that both sides set aside a specific
18 time on a quarterly basis to review monitoring results and to discuss MCI WorldCom's
19 plans to resolve any customer-affecting issues. These periodic meetings will enable the
20 WUTC Staff to provide MCI WorldCom with direct feedback about customer service on a
21 current basis. In addition, the analysis of data trends will enable MCI WorldCom and the

1 WUTC staff to anticipate and address service issues at a nascent stage and thereby avoid
2 undue impacts on customers.

3

4 **Q. WILL SERVICE TO THE SPRINT CUSTOMERS BE AFFECTED BY THE**
5 **MERGER?**

6 A. No. The Sprint customers will not suffer a decline in service. Indeed, MCI WorldCom
7 would like to gain more best practices from Sprint's customer service strengths.

8

9 **CONCLUSION**

10 We recognize that the telecommunications market place is complex, dynamic, and highly
11 competitive. In order to be effective, MCI WorldCom needs to deliver the right service
12 with good value to customers. We need to sell our plans and services accurately and then
13 deliver quality service. We believe that the company has and will have a lot to offer the
14 Washington consumer, both in cost-effective prices and in quality service.

15