

**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 DAVID N. PORTER

**On behalf of
MCI WORLDCOM, INC.**

April 21, 2000

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

2 A. My name is David N. Porter. I am Vice President Government Affairs for MCI
3 WORLDCOM, Inc. (“MCI WorldCom” or “the Company”). My business address is 1133
4 19th Street, N.W., Washington, D.C. 20036.

5 **Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?**

6 A. Yes. In my direct testimony, I described the request of MCI WorldCom and Sprint
7 Corporation (“Sprint”) (together the “Petitioners”), for Commission approval of a
8 transaction whereby MCI WorldCom would acquire control of Sprint’s Washington
9 operating companies. I also showed that the merger of MCI WorldCom and Sprint is
10 consistent with the public interest and will benefit Washington consumers and businesses.

11 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

12 A. The purpose of this rebuttal testimony is to address various allegations made in the
13 Testimony of Glenn Blackmon on behalf of the Commission’s Staff and of Jerry A.
14 Hausman on behalf of SBC Communications, Inc. (“SBC”). In addition to my testimony,
15 Emeric Kapka, Sally McMahon, and A. Daniel Kelley are submitting rebuttal testimony to
16 reply to other matters raised in Drs. Blackmon and Hausman’s Testimony.

17 **Q. DR. HAUSMAN PROPOSES SEVERAL REASONS FOR SBC’S INTEREST IN, OR
18 CONCERN OVER, THIS MERGER. WHAT ARE YOUR VIEWS ON THOSE
19 ALLEGED CONCERNS?**

20 A. First, he asserts SBC has particular interest in assuring the long distance business does not

1 become less competitive. We believe this merger will help the rapidly evolving long
2 distance market become even more competitive. I will expand on this view below. Dr.
3 Kelley also will describe the intensely competitive long distance market. Dr.
4 Hausman attempts to buttress his unsupported concern about decreased long distance
5 competition by asserting SBC will sell less exchange access service if the long distance
6 market becomes less competitive. Ignoring, for a moment, that he offers no support for
7 that concern, the issue is irrelevant in Washington because SBC offers no exchange access
8 service in this state. SBC may have good cause to fear lower access revenue in those
9 states where it does offer access service, but the cause will not be lessened long distance
10 volumes. Rather, as a result of this merger, the new WorldCom will be a more robust
11 local competitor both in Washington and in states where SBC provides access service. All
12 ILECs will feel more local competitive pressure as a result of this merger.
13
14 Finally, he asserts SBC may be harmed in its capacity as a wholesale customer due to
15 decreasing competition in the wholesale long-distance market. But according to SBC's
16 own announcements, it has entered a long term arrangement with Williams to provide
17 such transport. Williams has facilities that cross Washington from north to south and from
18 east to west. Thus, SBC is protected from any market change in the wholesale arena, and
19 Dr. Hausner's claim is irrelevant.

20

1 **Q. DR. HAUSMAN ASSERTS RBOCS MAY BE DENIED A CHOICE OF**
2 **WHOLESALE SUPPLIERS WHEN THEY SEEK TO OFFER OUT OF REGION**
3 **LONG DISTANCE. DO YOU AGREE?**

4 A. No. In fact, this testimony ignores the fact that all four of the remaining RBOCs have
5 already selected primary wholesale suppliers to carry their out-of-region long-distance
6 service other than MCI WorldCom, Sprint or AT&T. Bell Atlantic chose GTE. GTE has
7 a nationwide network, US West and Bell South chose Qwest. Qwest is completing a
8 nationwide network. And, SBC — Dr. Hausman’s client — chose Williams. Williams
9 also is completing a nationwide network. As I described in my direct testimony and as Dr.
10 Kelley elaborates in his Rebuttal Testimony, there were numerous other choices also
11 available. Clearly, the RBOCs had a choice and exercised it. Furthermore, by linking up
12 with the RBOCs, GTE, Williams and Qwest clearly have powerful new allies through
13 which to market both residential and business retail offerings. Thus, Dr. Hausman’s
14 assertion that AT&T and the new WorldCom will dominate the wholesale market is simply
15 wrong.

16 **Q. DO YOU AGREE WITH DR. HAUSMAN’S ASSERTION THAT THE MERGER**
17 **WILL UNACCEPTABLY REDUCE COMPETITION IN THE BUNDLED**
18 **SERVICES MARKET?**

19 A. No. I described in my Direct Testimony the rapid evolution of the marketplace toward a
20 high level of demand for a bundled product, including local, long distance, wireless and

1 broadband from single vendor, and showed that AT&T and the RBOCs are the primary
2 companies positioned to offer such bundles today. MCI WorldCom and Sprint separately
3 are not positioned to compete comprehensively in this market because each lacks pieces
4 that the other brings to the table. So, Dr. Hausman has the story backwards. The merger
5 will create a carrier better able to offer bundled service in competition against US WEST,
6 SBC and GTE in Washington

7 **Q. DR. HAUSMAN ASSERTS THERE IS NO ALL-DISTANCE MARKET FOR**
8 **LANDLINE TELEPHONE SERVICE. DO YOU AGREE?**

9 A. No. Again Dr. Hausman is wrong. As this Commission knows, GTE already offers a
10 bundle of local, long distance and Internet service in Washington. He also asserts that
11 local service is free. I assume he means local calling is not measured in most states, but it
12 certainly is not free. He goes on to assert that no all-distance market exists where a
13 monopolist constrained by regulation cannot raise local prices. I disagree. The ILECs can
14 and do offer bundled packages because they have the local monopoly and can recover
15 many costs that a long distance only carrier would otherwise incur by assigning the cost to
16 local. This is precisely the strategy SBC's Chairman explained to his company's
17 shareholders in SBC's most recent annual report, stating that "SBC can add long distance
18 to its portfolio of offerings without much difficulty and at low cost; we already have the
19 networks, sales, billing and customer support systems in place."

1 **Q. DO YOU AGREE WITH DR. HAUSMAN AND DR. BLACKMON THAT**
2 **BECAUSE THE DATE OF RBOC ENTRY INTO LONG DISTANCE IS NOT**
3 **CERTAIN, SUCH ENTRY CANNOT BE COUNTED ON TO KEEP THIS**
4 **MARKET COMPETITIVE?**

5 A. No. The date of such entry is uncertain only because the RBOCs for the most part have
6 not yet complied with their Section 271 obligations that are a prerequisite to their entry.
7 Their compliance with these obligations is entirely within their power. Careful regulatory
8 scrutiny is needed to assure that US WEST complies with its statutory obligations,
9 because if it does not, competition in the local marketplace would be crippled. But once
10 those obligations have been met, US WEST can be expected to enter extremely
11 vigorously, and is likely to capture market share very fast.

12 **Q. DR. HAUSMAN ASSERTS MCI WORLDCOM HISTORICALLY HAS BEEN THE**
13 **LEADING OPPONENT OF RBOC ENTRY INTO LONG DISTANCE. DO**
14 **YOU AGREE?**

15 A. No. Historically and, in some cases, yet today, MCI WorldCom has vigorously opposed
16 RBOC entry specifically because the RBOC had not satisfied its Section 271 obligations.
17
18 By contrast, we generally supported Bell Atlantic's New York application and subsequent
19 approval. There were just a few areas of concern that we continue to work with Bell
20 Atlantic to improve. No other RBOC has come close to Bell Atlantic's record in New

1 York. Indeed, SBC voluntarily asked the FCC to restart the clock on SBC's Texas
2 application. The RBOCs know what is needed to pass muster. It is simply up to them to
3 decide when to make the effort.

4
5 At any rate, the uncertainty of the exact timing of US WEST's entry does not mean that
6 other RBOCs will remain on the sidelines. Dr. Hausman has neglected to mention another
7 key entrant into this market -- SBC itself. SBC has announced that it will shortly begin
8 providing "a competitive, integrated mix of local, long distance, Internet, and high-speed
9 data services" in thirty top markets outside its own region, and in particular that it will
10 begin serving Seattle in the fall of this year. "About SBC Telecom,"

11 <<http://www.sbctelecom.com/About/1,1910,,00.html>>. To solidify its position in the
12 bundled services market, SBC has forged a long-term alliance with Williams
13 Communications to provide for the carrying of long distance voice and data traffic. "SBC
14 Forms Alliance With Williams Communications To Transport Long-Distance Data, Voice
15 Traffic," February 8, 1999, <[http://www.sbc.com/News_Center/Article.html?
16 query_type=article&query=19990208-01](http://www.sbc.com/News_Center/Article.html?query_type=article&query=19990208-01)>. Just this month, it also has announced a joint
17 venture with BellSouth to combine the two companies' wireless assets and create what it
18 characterizes as the second biggest wireless company in the U.S. It will own 60% of this
19 joint venture. "BellSouth, SBC Create 2nd Largest Wireless Company," April 5, 2000,
20 <http://www.sbc.com/News_Center/Article.html?query_type=article&query=20000405-

1 01>.
2 Bell Atlantic, too, is poised to make significant inroads into the Washington market. Its
3 pending merger with GTE will give it the second-largest local presence in Washington
4 instantaneously, and it has already begun rolling out other products in contemplation
5 thereof. For example, it has announced its e-Values long distance plan, with interstate
6 rates of 9 cents a minute weekdays and 5 cents a minute on weekends. Its in-state rates in
7 Washington are 10 cents weekdays and 5 cents weekends. “Introducing Bell Atlantic
8 Long Distance,” <<http://www.callbell.com/evalues/Index.htm>>. The combination of its
9 domestic wireless assets with those of Vodaphone AirTouch, will strengthen its hand on
10 the wireless side, which will be strengthened further upon completion of its merger with
11 GTE. GTE itself is, of course, an old hand at selling bundled services. Its 1999 Annual
12 Report shows 3.4 million long distance customers (page 12) and 7.1 million wireless
13 customers (page 10). <[http://www.gte.com/AboutGTE/Investor/Annual1999/
14 pdf/gte_ar99.pdf](http://www.gte.com/AboutGTE/Investor/Annual1999/pdf/gte_ar99.pdf)>.

15 **Q. HOW DOES THE ABOVE DISCUSSION IMPACT DR. HAUSMAN’S AND DR.**
16 **BLACKMON’S STATEMENTS THAT THE MERGER WILL UNACCEPTABLY**
17 **REDUCE THE NUMBER OF CARRIERS WITH STRONG BRANDS IN THE**
18 **BUNDLED SERVICES MARKET?**

19 A. First, as I explained above, the merger will not reduce the number of carriers in the
20 bundled services market. It will create one from two that cannot now offer a bundled

1 service. Further, I disagree with the concept that only the local RBOC, AT&T, MCI
2 WorldCom and Sprint have strong brands among competitors in this market. Qwest and
3 Excel, to name two, are expending many millions of dollars in advertising campaigns
4 designed to strengthen their brand recognition. “Qwest Launches National Brand
5 Campaign,” February 24, 1999, <<http://www.qwest.com/about/media/story.asp?id=150>>.
6 “Excel Communications Unveils Company Positioning for 21st Century,”
7 <http://www.excel.com/us/News/present_releases/relaunch4_00.html> Moreover, SBC
8 and Bell Atlantic have the advantage of their respective traditional Bell brands. It is no
9 wonder that SBC boasts on its website that: “SBC operates under some of the strongest
10 brands in the industry: Southwestern Bell, Ameritech, Pacific Bell, SBC Telecom, Nevada
11 Bell, SNET and Cellular One.” “Investor Relations - Corporate Information,”
12 <<http://www.sbc.com/Investor/Corporate/Home.html>>. Bell Atlantic also has a strong
13 brand, as does its merger partner, GTE, especially in Washington as the second-largest
14 ILEC. Bell Atlantic and GTE have announced that they will change the name of the
15 combined entity to Verizon, but they clearly plan major initiatives and massive
16 expenditures to develop the new brand, and they would be foolish not to. “Verizon
17 Selected as New Name for Combination of Bell Atlantic and GTE,” April 03, 2000,
18 <<http://bel-ir.com/BELemail/news.cgi?ID=227>>. Thus, after the merger, there will
19 continue to be a number of competitors with strong brands in this market. In my view, the
20 brand issue is a red herring.

1 **Q. DO YOU HAVE ANY COMMENT ON DR. BLACKMON'S AND DR.**
2 **HAUSMAN'S CONCLUSION THAT THE LONG DISTANCE MARKET**
3 **WOULD BECOME UNDULY CONCENTRATED AFTER THE MERGER?**

4 A. This issue is primarily being addressed in the Rebuttal Testimony of Dr. Kelley. I do,
5 however, have a couple of points to note. First, by Dr. Blackmon's own reckoning
6 (Exhibit GB-2), the market would be significantly less concentrated after this merger than
7 it was as recently as 1996. Yet no one denies that the long distance market was robustly
8 competitive in 1996. Second, with regard to Dr. Hausman's contentions, it is hard to
9 believe that SBC sincerely believes that the merger will give the new WorldCom the
10 power to set rates above competitive levels. If WorldCom could and did do so, this would
11 create a pricing umbrella of which SBC could readily take advantage in marketing its own
12 long distance services. WorldCom would face two choices -- either keep its new, higher
13 rates and lose market penetration or reduce prices to compete. So even if Dr. Hausman
14 were correct that WorldCom would raise its prices -- which he is not -- WorldCom would
15 be forced immediately to lower its prices again to compete.

1 **Q. ACCORDING TO DR. HAUSMAN, SBC BUYS WHOLESALE LONG**
2 **DISTANCE SERVICE INDIRECTLY FROM SPRINT AND THEREFORE**
3 **WOULD BE AGGRIEVED BY A LOSS OF COMPETITION AMONG**
4 **UBIQUITOUS WHOLESALE PROVIDERS OF LONG DISTANCE SERVICES.**
5 **DO YOU AGREE?**

6 A. No. First, SBC is presumably protected by Williams' underlying contract with Sprint.
7 But in any event, as I showed in my Direct Testimony, there is a huge amount of capacity
8 available to resellers in Washington and elsewhere. While the providers of some of this
9 capacity may not have facilities in every single LATA in the U.S., SBC can readily
10 combine their facilities with those of regional providers to craft a nationwide capability.
11 Dr. Hausman overstates the case for MCI WorldCom's and Sprint's ubiquity. In fact,
12 about half of Sprint's network and one-third of MCI WorldCom's network consists of
13 routes not duplicated by the other Petitioner's network. MCI WorldCom today leases
14 facilities from other providers, such as Touch America and Valley Net, where we do not
15 have our own facilities. I understand that Sprint has similar relationships. If we can do it,
16 so can SBC. Dr. Kelley's Rebuttal Testimony examines and refutes Dr. Hausman's claims
17 as to the wholesale market in greater detail.

18 **Q. DR. HAUSMAN ASSERTS MCI WORLDCOM AND SPRINT ARE ALREADY**
19 **"SIGNIFICANT COMPETITORS" IN LOCAL EXCHANGE MARKETS AND**

1 **THAT THE MERGER WILL DECREASE ACTUAL LOCAL COMPETITION.**

2 **DO YOU AGREE?**

3 A. Dr. Hausman supports this surprising contention solely by quoting a paragraph from the
4 FCC's order approving SBC's acquisition of Ameritech, but he has twisted the meaning of
5 this paragraph by quoting it out of context. The paragraphs from which he quotes are part
6 of a section that discusses *potential* competitors of incumbent LECs. The FCC defines
7 "significant market participant" to include the universe of actual and "precluded"
8 competitors. A "precluded" competitor is a firm most likely to have entered but for the
9 barriers to entry the 1996 Act sought to lower. Clearly, AT&T, MCI WorldCom and
10 Sprint fit the definition of precluded competitors. This context also is clear from the
11 quoted text "these are firms [which have] stated their *intentions* to begin serving the mass
12 market for local service." Dr. Hausman's assertion that this quote "discredits" MCI
13 WorldCom and Sprint's claim that this merger will allow them to better enter local
14 exchange markets merely discredits his analysis.

15

16 In fact, as this Commission well knows, MCI WorldCom has no significant presence in the
17 Washington residential local service market at this time. This is primarily because the
18 sound public policy incorporated in the 1996 Act has not been effectively implemented.
19 The Act did eliminate state regulations that prohibited local competition, but entry
20 provisions of Section 251, universal service reform and access charge reform, simply have

1 not been implemented. Further, there is no likelihood that key decisions and court reviews
2 will be completed any time soon. Yet Bell Atlantic already has been granted entry into the
3 long distance market. MCI WorldCom and Sprint can wait no longer.

4
5 While we will continue to support full implementation of the Act, in the meantime we
6 must find some other way to enter US West and GTE local markets in Washington. The
7 proposed merger offers the best alternative our companies could conceive. The merger
8 allows us to build on each other's strengths and offset each other's deficiencies – MCI
9 WorldCom has local fiber networks and local switches in the Seattle metro area; Sprint
10 does not. Sprint has PCS and ION. MCI WorldCom has paging and international. The
11 companies have non-overlapping, complementary MMDS licenses. Taken together, we
12 believe we will have the piece-parts we need to offer a third facility-based access
13 alternative to consumers in competition against the ILEC and CATV monopolies. This is
14 the greatest benefit of this merger and one this Commission cannot overlook.

15 **Q. DO YOU HAVE ANY COMMENT ON MR. BLACKMON'S STATEMENT**
16 **THAT "THE UNBUNDLING OF SPRINT'S PACKAGE OF WIRELESS AND**
17 **WIRELINE SERVICES MUST BE CONSIDERED A NEGATIVE RESULT"?**

18 A. Yes. I do not understand why Dr. Blackmon believes that these services are being
19 unbundled. The Application and my Direct Testimony are clear that, because MCI
20 WorldCom and Sprint bring complementary capabilities to the table, the combined

1 WorldCom will be able to offer the customers of both companies more comprehensive
2 Bundles of services than either company standing alone can offer today.

3
4 **Q. WHAT IS YOUR RESPONSE TO DR. BLACKMON'S CONCERN THAT THE**
5 **MERGER DOES NOT CARRY WITH IT SUFFICIENT CONSUMER PROTECTION**
6 **CONDITIONS (TESTIMONY AT 4, 26)?**

7 A. In my Direct Testimony (at 7), I made the following commitments on behalf of MCI
8 WorldCom as the acquiring company:

9 MCI WorldCom and Sprint will make the following commitments to assure
10 that there will be no negative impact on the retail telecommunications
11 services provided by United Telephone Company of the Northwest d/b/a
12 Sprint ("United"). First, the operations of United will be unchanged by
13 approval of the merger. Second, United will continue to comply with all
14 Washington statutes and applicable regulatory requirements. Third, the
15 combined entity will maintain its investment in United's network and work
16 force in Washington at levels that are required to continue to provide high
17 quality local service to its business and residential customers. These
18 commitments will ensure that Sprint's Washington local exchange customers
19 will experience no adverse changes from the merger.
20

21 MCI WorldCom continues to stand behind those commitments. In addition, MCI

22 WorldCom is prepared to make the following commitments:

- 23 1. MCI WorldCom will agree that the average effective in state rate per minute
24 charged by MCI WORLDCOM Communications, Inc. shall not increase from the
25 time the merger is closed to six months following merger closing.
- 26 2. MCI WorldCom shall make the following commitments concerning United
27 Telephone Company of the Northwest ("United") and its ratepayers:

- 1 a. MCI WorldCom will agree not to seek recovery in rates of any costs of the
2 merger, including any increased debt cost associated with the merger;
- 3 b. MCI WorldCom will agree to operate Sprint United's network and
4 workforce in Washington at such levels as are required to continue
5 providing adequate, efficient, safe and reasonable service to both residential
6 and business customers and will agree not to take any action as a result of
7 the merger that would erode the level of service quality provided to Sprint
8 United's customers; and
- 9 c. MCI WorldCom will agree not to seek rural exemption under section
10 251(f) at any time after the merger is completed.
- 11 3. Modifications to MCI WorldCom's web page are underway to clarify the
12 difference between interLATA and intraLATA calling, as described in Ms.
13 McMahon's Rebuttal Testimony. Certain web page modifications have already
14 been made to respond to Staff's concerns that our web page failed to clearly
15 specify the terms and conditions of our long-distance calling plans.
- 16 4. MCI WorldCom will rebalance its in-state long distance and local toll rates to
17 equalize interLATA and intraLATA rates.
- 18 5. MCI WorldCom will introduce a new long distance product under which
19 customers will be charged the same rates for state to state and in-state long
20 distance calls for an additional monthly fee.

1 6. MCI WorldCom has already implemented improvements at its customer service
2 centers that are resulting in decreasing levels of customer complaints, as discussed
3 in Ms. McMahon's Rebuttal Testimony.

4 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

5 A. The concerns raised by Drs. Blackmon and Hausman are not warranted. Competition in
6 the long distance marketplace will not be harmed by the proposed merger and
7 competition in the local and bundled services marketplace will be enhanced by the
8 merger. The merger is clearly in the public interest and will benefit Washington
9 consumers.

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes, except to the extent that I may need to supplement my testimony upon review of
12 SBC's responses to data requests, which were not available to me at the time I prepared
13 my testimony.

14