Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Verizon Communications Inc. and	)	WC Docket No. 05-75
MCI, Inc.	)	
Applications for Approval of	)	
Transfer of Control	)	

DECLARATION OF

SUSAN M. BALDWIN

and

SARAH M. BOSLEY

on behalf of the

New Jersey Division of the Ratepayer Advocate

May 9, 2005

REDACTED – FOR PUBLIC INSPECTION

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I. INTRODUCTION

Introduction and Qualifications

1. Our names are Susan M. Baldwin and Sarah M. Bosley. We are consultants, and our business address is 17 Arlington Street, Newburyport, Massachusetts, 01950. We provide consulting services to public sector agencies on telecommunications economics, regulation, and public policy. Our statements of qualifications are included as Attachments A and B.

2. Last month, we assisted the New Jersey Division of the Ratepayer Advocate ("Ratepayer Advocate") in the preparation of initial comments in WC Docket No. 05-65, the investigation by the Federal Communications Commission ("FCC" or "Commission") of the proposed merger of SBC Communications Inc. ("SBC") and AT&T Corp. ("AT&T").[1] Ms. Baldwin also submitted testimony before the New Jersey Board of Public Utilities ("New Jersey Board" or "Board") in its review of the proposed SBC/AT&T merger.[2] We are also assisting the Ratepayer Advocate in its analysis of the petition of Verizon Communications Inc. ("Verizon") and MCI, Inc. ("MCI") for the New Jersey Board's approval of their proposed merger.[3]

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[1] *In the Matter of Transfer of Control Filed by SBC Communications Inc. and AT&T Corp.*, FCC WC Docket No. 05-65, Comments on behalf of the New Jersey Division of the Ratepayer Advocate, April 25, 2005.

[2] *Joint Petition of SBC Communications Inc. and AT&T Corp., Together with its Certificated Subsidiaries for Approval of Merger*, New Jersey Board of Public Utilities Docket No. TM05020168, on behalf of the New Jersey Division of the Ratepayer Advocate, May 4, 2005.

[3] *Joint Verified Petition of Verizon Communications Inc. and MCI, Inc. For Approval of Agreement and Plan of Merger*, New Jersey Board of Public Utilities Docket No. TM05030189, March 3, 2005.

3. As evidenced by our statements of qualifications, we have analyzed numerous other mergers between telecommunications carriers on behalf of consumer advocates. Ms. Baldwin has filed testimony on behalf of the Nevada Bureau of Consumer Protection on the proposed merger of Sprint Corporation ("Sprint")and MCI WorldCom Inc. ("WorldCom"); the California Office of Ratepayer Advocate and Washington Office of Attorney General in their respective state public utility commissions' review of the merger of Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE"); the Ohio Consumers' Counsel and the Indiana Office of Utility Consumer Counselor with respect to the SBC Communications, Inc.'s ("SBC") acquisition of Ameritech Corporation ("Ameritech"); the Connecticut Office of Consumer Counsel regarding SBC's acquisition of Southern New England Telecommunications Corporation ("SNET") and filed Affidavits with the Commission in its review of the SBC/Ameritech and Bell Atlantic/GTE mergers on behalf of consumer coalitions. Ms. Baldwin also provided assistance to the Hawaii Division of Consumer Advocacy in its analysis of the Bell Atlantic/GTE merger and the California Office of the Ratepayer Advocate's review of the SBC's acquisition of Pacific Telesis Group. Ms. Bosley contributed to the investigations of the Bell Atlantic/GTE merger on behalf of the California Office of Ratepayer Advocate, the Washington Attorney General and Hawaii Division of Consumer Advocacy, and the SBC/Ameritech merger on behalf of the Indiana Office of Utility Consumer Counselor.

4. As this Declaration demonstrates, the FCC should assess the merits of the proposed

Verizon/MCI merger, not in a vacuum, but rather within the context of the present stagnation in, indeed retreat from, local and bundled services competition. The FCC's analysis should be anchored in a detailed evaluation of data about relevant markets.[4] On multiple occasions, we have analyzed granular, geographically deaveraged, competitively sensitive data about New Jersey's local and bundled services markets.[5] Most recently, Ms. Baldwin and Ms. Bosley examined data about Verizon's and competitive local exchange carriers' ("CLECs") presence in New Jersey in the Board's investigation of Verizon's petition to reclassify business local exchange service offered to customers with between two and four lines as competitive.[6]

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[4]The FCC's request for detailed information from SBC and AT&T, in WC Docket No. 05-65, is a positive step, although it is not evident that the procedural schedule permits an adequate opportunity for parties to analyze the responses. Letter to Applicants from Michelle M. Carey, Deputy Chief, Wireline Competition Bureau, April 18, 2005, Initial Information and Document Request. The FCC should request similar information from Verizon and MCI.

[5]On behalf of the Ratepayer Advocate, Ms. Baldwin submitted an affidavit in the FCC's "impairment" proceeding, in which she discussed the results of her analysis of geographically disaggregated data about New Jersey's local markets (*Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Local Exchange Carriers*, Federal Communications Commission WC Docket No. 04-313; CC Docket No. 01-338, Affidavit of Susan M. Baldwin, on behalf of the Ratepayer Advocate, filed October 4, 2004); See, also, *In the Matter of the Implementation of the Federal Communications Commission's Triennial Review Order*, New Jersey Board of Public Utilities Docket No. TO03090705, Testimony of Susan M. Baldwin on behalf of the New Jersey Division of the Ratepayer Advocate, filed February 2, 2004.

[6]*In the Matter of the Application of Verizon New Jersey, Inc. for Approval (I) of a New Plan for an Alternative Form of Regulation and (II) to Reclassify Multi-Line Rate Regulated Business Services as Competitive Services, and Compliance Filing, New Jersey Board of Public Utilities Docket No. TO01020095*, on behalf of the New Jersey Division of the Ratepayer Advocate, filed January 10, 2005 and February 4, 2005. Ms. Baldwin's testimony demonstrated why, particularly in light of the *TRRO* and pending mergers, the New Jersey Board of Public

5. Our familiarity with the status of and prospects for local competition for the mass market extends beyond Verizon's territory. Both Ms. Baldwin and Ms. Bosley have substantial experience in evaluating the status of local competition; incumbent local exchange carriers' ("ILECs") proposals for deregulation; and the consumer impact of changes in telecommunications market.

6. Ms. Baldwin has been actively involved in public policy for twenty-seven years, twenty-one of which have been in telecommunications policy and regulation. Ms. Baldwin received her Master of Economics from Boston University, her Master of Public Policy from Harvard University's John F. Kennedy School of Government, and her Bachelor of Arts degree in Mathematics and English from Wellesley College. Ms. Baldwin has extensive experience both in government and in the private sector. Ms. Baldwin has testified before sixteen state public utility commissions and submitted numerous affidavits and comments to the Federal Communications Commission on behalf of consumer advocates, NASUCA, users, and CLECs. Ms. Baldwin also has served four years as the Director of the Telecommunications Division for the Massachusetts Department of Public Utilities (now the DTE).

7. Sarah M. Bosley has over five years of experience in telecommunications economics, regulation, and public policy. Ms. Bosley earned her Master of Science in Agricultural and

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Utilities should reject Verizon's request to relax regulatory oversight over business local exchange service offered to customers with two to four lines.

Applied Economics from Virginia Tech, her Master of Arts in International Affairs from American University, and her Bachelor of Arts in Political Science from McGill University. She has contributed to and co-authored reports for state commissions and comments filed in Federal Communications Commission proceedings.

8. Our statements of qualification provide further detail. It is with these backgrounds and experience that our declaration analyzes whether the proposed merger between Verizon and MCI is in the public interest.

Purposes of Declaration

9. The Ratepayer Advocate asked us to prepare this Declaration to supplement and to provide further factual support for its comments in the instant proceeding. In confidential attachments to this Declaration, we rely on proprietary data that Verizon and MCI ("Applicants") submitted with their application to the FCC.[7] We refer to but do not provide proprietary data that we analyzed in the New Jersey Board's pending investigation of Verizon's request to classify as competitive business local exchange service offered to business customers with two to four lines.

[7]The text of our Declaration, however, does not refer to any confidential data.

The proposed merger would continue a troubling trend toward Bell-controlled oligopoly at best and market re-monopolization at worst.

10. One of MCI's reasons for merging with Verizon seems to reflect a "keeping up with the Joneses" attitude, to stay abreast of (or indeed outdo) all the other companies that have merged or that are proposing to merge:

> In recent months, there has been an increased trend towards consolidation in the telecommunications industry, as reflected in announced mergers involving two of our principal competitors, the mergers of Sprint with Nextel and AT&T with SBC Communications, and our pending merger with Verizon. While we expect our pending merger, once consummated, to strengthen our ability to compete, this consolidation trend will also strengthen the resources available to these other competitors, allowing them to offer larger bundles of services and reducing their cost structure.[8]

11. The sequence of recent events, involving Verizon in particular, and Bell operating companies ("BOCs" or "Bells") in general, is troubling.[9] Verizon has successfully obtained

[8] MCI, Inc. Form 10-K, Annual Report for the fiscal year ended December 31, 2004, at 16.

[9] *See, e.g., Qwest Petition for Competitive Classification of Business Services*, Washington Utilities and Transportation Commission Docket No. 030614. The granting by the Washington Utilities and Transportation Commission ("WUTC") of the competitive classification of Qwest's basic business local exchange services, which Ms. Baldwin opposed on behalf of Washington State's Public Counsel, was based on data regarding CLECs' presence during the relative "heyday" of local competition, *i.e.*, before the FCC issued the *TRRO* order. The WUTC explicitly relied on UNE–P-based entry in its analysis and findings. In the Matter of the Petition of Qwest Corporation For Competitive Classification of Basic Business Exchange Telecommunications Services, Docket No. UT-030614, Order No. 17, Order Granting Competitive Classification, December 23, 2003. Among other things, the WUTC stated: "CLECs using UNE-P are present in 61 of 68 Qwest exchanges, where over 99% of Qwest's

significant regulatory relief from state commissions and is now seeking approval to acquire one of its major competitors. The implications for consumers are bleak – one fewer competitor and one fewer regulatory activist. It is essential for the FCC and state public utility commissions to re-assert regulatory oversight to protect mass market consumers, particularly those who are most vulnerable to monopoly practices, *e.g.*, those in rural areas, those who do not seek "bells and whistles," those who do not want bundled services, and those with low and moderate incomes. Extending the sobering image depicted in Commissioner Adelstein's statement dissenting from the FCC's Order on Remand in its Triennial Review proceeding ("TRRO"),[10] the FCC's approval of the proposed merger between Verizon and MCI would "pound in" yet another nail in the coffin for local competition.[11]

12. The merger, as it is presently structured, exposes consumers to potential adverse effects

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analog business customers reside. *Id.,* at 37. The WUTC also determined that "[a]n important feature of this structure is the availability to competitors of UNE-P, which is the entire platform (loop, transport and switch included) used by Qwest to serve a customer." *Id*., at 49. The WUTC further observed that "Public Counsel and WeBTEC argue that it is paradoxical that UNE-P is under attack by Qwest in the TRO proceeding at the same time that Qwest relies on UNE-P to support its petition here." *Id*., at 42.

[10] *Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC WC Docket No. 04-313; CC Docket No. 01-338, *Order on Remand*, rel. February 4, 2005 ("Triennial Review Remand Order" or "TRRO").

[11] Statement of Commissioner Jonathan S. Adelstein, Dissenting Re: *Unbundled Access to Network Elements* (WC Docket No. 04-313); *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers* (CC Docket No. 01-338), December 15, 2004, at 1.

(service quality deterioration, excessive rates, aggressive sales practices, and the loss of competitive choice) and yet fails to provide residential and small business consumers with the likelihood of offsetting benefits. Absent significant conditions, the merger is not in the public interest. Furthermore, the loss of MCI as a regulatory activist would severely diminish the breadth and depth of major pending regulatory proceedings.

13. The major theme that emerges with this proposed merger and the proposed merger between SBC and AT&T is that we could have the worst of both worlds – a pretext of competition that justified the unleashing of regulation and now CLECs either fleeing the local market or merging with their rivals. If MCI cannot make a go of it on its own, the outlook is poor for mass market consumers, particularly those that do not seek bundled offerings.[12] It is time to rethink the regulation of Bells, particularly for the services they offer mass market consumers.

14. Bell operating companies started the trend of acquisition rather than competition in the

[12]Forty-one percent of U.S. households do not have access to the Internet and an additional 34% of households still use dial-up. According to comments filed by Verizon in WC Docket No. 04-313; CC Docket No. 01-338, only 25% of U.S. households have access to broadband in the home. Declaration of Michael K. Hassett and Vincent J. Woodbury, Attachment I, Comments of Verizon in WC Docket No. 04-313; CC Docket No. 01-338, October 4, 2004, at para. 38. More than 92 percent of U.S. households with incomes of more than $75,000 had Internet access, but the share was 48 percent for those with household incomes of less than $30,000, according to a survey by the Pew Internet & American Life Project. Pew Internet & American Life Project, January 2005 Tracking Survey, available at http://www.pewinternet.org/trends/User_Demo_03.07.05.htm.

l990s. As Ms. Baldwin observed in 1998, regarding the merger between Bell Atlantic and GTE:

> All of the rationale that Bell Atlantic offers in support of its proposed merger with GTE would also support further aggrandizement of Bell Atlantic through subsequent mergers. . . . Would Bell Atlantic need another takeover target whenever a telecommunications provider in the world got larger? Simply put, there is no obvious logical ending point to the Bell Atlantic acquisitions strategy.[13]

As was the case seven years ago, buying out the competition continues to be Verizon's strategy. Although this tactic might serve shareholders' interests, the Applicants have not demonstrated how "further aggrandizement" will help residential and small business consumers.

The proposed merger would create a ninety billion dollar competitor.

15. Verizon and MCI announced an Agreement and Plan of Merger on February 14, 2005, and submitted an application with the FCC for approval to transfer control of MCI's licenses and authorizations to Verizon on March 11, 2005.[14] The Applicants submitted a public interest statement and sixteen declarations in support of their proposed transaction.[15] Under the proposed

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[13] *GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control*, Federal Communications Commission CC Docket No. 98-184, with Helen E. Golding on behalf of a coalition of consumer advocates from Delaware, Hawaii, Maine, Maryland, Missouri, Ohio, Oregon, West Virginia, and Michigan, filed on December 18, 1998, at para. 24.

[14] *Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, FCC WC Docket No. 05-75, Application for Transfer of Control, March 11, 2005 ("Application"), at ii.

[15] *Verizon Communications Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, FCC WC Docket No. 05-75, Application for Transfer of Control, March 11, 2005,

merger, MCI would become a wholly-owned subsidiary of Verizon. An amended agreement was announced May 2, 2005 in which each share of MCI would be exchanged for stock worth at least $26. The exchange would include cash of $5.60 to be paid upon approval by MCI shareholders plus the greater of 0.5743 shares of Verizon stock for every share of MCI common stock or a "sufficient number of Verizon shares to deliver $20.40 of value."[16] MCI would continue to hold the stock of its subsidiaries after the merger and would continue to hold its own FCC authorizations that it held prior to the merger.[17] The transaction is estimated to be worth $8.44 billion.[18]

16. Verizon is a holding company that owns communications subsidiaries operating in both U.S. and foreign markets. Verizon's operating subsidiaries provide local exchange

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Appendix 1: Public Interest Statement ("Public Interest Statement"); Declaration of Gustavo E. Bamberger, Dennis W. Carlton, and Allan L. Shampine; Declaration of Robert W. Crandall and Hal J. Singer; Declaration of Eric J. Bruno and Shelley Murphy; Declaration of Jeffrey E. Taylor; Declaration of Quintin Lew and Ronald H. Lataille; Declaration of Michael K. Hassett, Kathy Koelle, Katherine C. Linder and Vincent J. Woodbury; Declaration of Ronald H. Lataille; Declaration of Stephen E. Smith; Declaration of Todd Buchanan; Declaration of John J. Lack and Robert F. Pilgrim; Declaration of Wayne Huyard; Declaration of Ronald J. McMurtrie; Declaration of Jonathan P. Powell and Stephen M. Owens; Declaration of Vinton G. Cerf; Declaration of Ihab S. Tarazi; and Declaration of Michael Kende.

[16] Verizon Communications Inc. Press Release, "Verizon Announces Agreement with MCI," May 2, 2005, available at http://investor.vzmultimedia.com/news/view.aspx?NewsID=626.

[17] Application, at ii.

[18] "Verizon Wins Bidding for MCI; Qwest Drops Out," Wall Street Journal Online, May 3, 2005.

telecommunications services in 29 states and the District of Columbia, nationwide long-distance, broadband, and other services.[19] Verizon is the largest provider of wireline services in the U.S. serving approximately 144.7 million access lines equivalents. Verizon is a majority owner of Verizon Wireless (with a 55% interest), which provides wireless voice and data service to 43.8 million U.S. consumers. Verizon has approximately 210,000 employees. Verizon also has a directories business segment and an international presence.[20]

17. MCI provides communications services globally, offering long-distance, high-capacity connections, and a variety of data and voice services. MCI primarily serves business customers and owns and operates "one of the most extensive communications networks in the world."[21] MCI also provides value-added services and managed network services to customers. MCI employed approximately 40,000 employees as of year-end 2004.[22]

18. Verizon reported $71.3 billion in operating revenues and MCI reported $20.7 billion in operating revenues for 2004.[23] Financial data reported to the Securities and Exchange

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[19] Application, at iii.

[20] Verizon Communications Inc., Form S-4 Registration Statement, filed with the Securities and Exchange Commission, April 12, 2005 ("Proxy Statement"), at 97.

[21] Proxy Statement, at 98.

[22] *Id.*

[23] *Id.*, at 91.

Commission ("SEC") in Verizon's Form S-4 indicates operating revenues of $89.7 billion for 2004 for the combined telecommunications giant.[24] Before any staff reductions, the merged entity would employ approximately 250,000 people. By contrast, financial data reported to the SEC in the SBC Prospectus/AT&T Proxy Statement indicates operating revenues of $69.5 billion for 2004 and over 210,000 employees for the combined telecommunications giant.[25]

19. The SBC/AT&T and Verizon/MCI entities would overshadow all other telecommunications carriers. If Sprint and Nextel Communications Inc. ("Nextel") merge, the combined entity would have approximately $38 billion in revenues.[26] BellSouth reported $20.3 billion and Qwest reported $13.8 billion in operating revenues for 2004.[27]

20. The Applicants state that the proposed merger will create a "stronger and more efficient competitor" and "will strongly benefit all kinds of customers and thereby promote the public

[24]*Id.*

[25]Prospectus of SBC Communications Inc., Proxy Statement of AT&T Corp., S-4, filed with the Securities and Exchange Commission, March 11, 2005 ("SBC Prospectus/AT&T Proxy Statement"), at 12.

[26]Sprint had $27 billion in revenues for the twelve months ending September 20, 2004. Nextel had approximately $10.8 billion in revenues for 2003 and $9.8 billion in revenues for the first nine months of 2004. Sprint/Nextel Application for Transfer of Control, FCC WT Docket No. 05-63, Public Interest Statement, February 8, 2005, at 11 and 14.

[27]BellSouth Corporation, Annual Report 2004, at 6;Qwest Communications International, Inc., Form 10-K, Annual Report for the year ended December 31, 2004, at 4.

interest."[28] According to the Applicants, the proposed merger is "the next logical step" in the transformation of the communications industry.[29] The merger is expected to yield synergies estimated at a net present value of $7 billion, which the Applicants state will be used to provide "new and improved services faster and more efficiently."[30] The Applicants assert that the merger will benefit all customers segments (*i.e.*, large enterprise, government, and mass market). Specifically, mass market customers will purportedly benefit from the establishment of the most advanced broadband platform in the country, large enterprise customers from a stronger competitor in an already highly competitive market, and government customers from increased investment in the communications infrastructure.[31]

21. The Applicants assert that the benefits accruing from the proposed merger "will outweigh any potential lessening of competition in any segment of the broad communications marketplace."[32] Verizon and MCI maintain that in every market they serve, competition is vibrant and growing. The Applicants rely on the presence of intermodal alternatives with respect to competition in the mass market.[33] MCI apparently made a decision last year to exit the mass

[28] Public Interest Statement, at 1.

[29] *Id.*, at 3.

[30] *Id.*

[31] *Id.*

[32] *Id.*, at 4.

[33] *Id.*

market as its mass market business is "in continuing and irreversible decline."[34] This decision was based on the purported intense intermodal competition; marketing restrictions as a result of legislation; and regulatory decisions affecting MCI's provision of all-distance services.[35]

22. MCI provides numerous indicators of its declining position in the digital subscriber line ("DSL"), stand-alone long distance and integrated local/long distance markets in Verizon's territory, for residential and small business customers, as measured by lines and revenues.[36] MCI also provides data about its declining number of employees and call center marketing efforts.[37]

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[34] *Id.*

[35] *Id.*, at 5.

[36] Declaration of Wayne Huyard (Verizon/MCI), at paras. 2-4, 19, 22. The quantities are shown in the confidential version of Mr. Huyard's declaration.

[37] *Id.*, at paras. 14-16. Relevant quantities are shown in the confidential version of Mr. Huyard's declaration.

II. STATUS OF COMPETITION

The FCC's resolution of this proceeding will affect consumers' choices.

23. As the Commission recognized in its order approving the merger between Bell Atlantic and NYNEX Corporation:

> Even upon hypothetical full implementation of the Telecommunications Act of 1996, significant barriers to entry into the local telecommunications market will remain. Entrants must still be able to attract capital, as well as to amass and retain the technical, operational, financial and marketing skills necessary to operate as a telecommunications provider in the local market. For mass market services, entrants will have to invest in establishing the brand name recognition and, even more importantly, the mass market reputation for providing high quality telecommunications services. These consumer "goodwill" assets take significant amounts of time and resources to acquire. An unknown entrant's attempts to build "goodwill" by providing reliable, high quality service relies heavily on the cooperation of the incumbent LEC that provides interconnection, unbundled elements, resold services or transport and termination, and can be frustrated by the incumbent LEC if that carrier engages in discriminatory conduct affecting service quality, reliability or timeliness. *For all these reasons, we cannot at this time simply assume that implementation of the Telecommunications Act of 1996 and the potential for development of competition will eliminate any concerns about potential competitive effects of mergers, particularly the effects on the pace of the development of competition.*[38]

24. The detailed analysis of granular data in New Jersey demonstrates that CLECs' position in the local market is tenuous. The majority of mass market consumers who subscribe to a

[38] *Applications of NYNEX Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control of NYNEX Corporation and Its Subsidiaries*, File No. NSD-L-96-10, *Memorandum Opinion and Order*, 12 FCC Rcd 19988 (1997), at para 42, emphasis added.

carrier other than Verizon for local service, subscribe to AT&T and MCI. In the sections below, we discuss national data and New Jersey data. New Jersey, with densely populated markets and a policy of promoting competition,[39] provides a reasonable window through which to examine local market structures.

25. Despite the efforts of state and federal regulators to eliminate market barriers, successful entry to ILEC-dominated markets has not been easy, and, as a result of regulatory and industry developments has become vastly more difficult. CLECs must overcome (1) customer inertia, (2) economic and operational impediments, and (3) more than a century of Verizon's dominance in local markets. Based on the FCC's most recently available statistics, Verizon - New Jersey, Inc. ("Verizon NJ") dominates the vast majority of the local market either directly through its own retail services or indirectly by leasing its wholesale facilities to its competitors (*i.e.*, the non-facilities-based competition that occurs through resale, unbundled network element platform ("UNE-P"), and UNE loop).[40] Even if viewed solely on a retail basis (which would be misleading because it would mask CLECs' reliance on the incumbent carrier's facilities),

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[39]The legislature has declared that it is the policy of the state to, among others, "[p]rovide diversity in the supply of telecommunications services and products in telecommunications markets throughout the State." *N.J.S.A.* 48:2-21.16.

[40]CLECs owned fewer than 106,000 (or less than 2%) of the total 6.5-million end-user switched access lines in service in New Jersey as of June 30, 2004. Federal Communications Commission, Wireline Competition Bureau, Industry Analysis and Technology Division, *Local Telephone Competition: Status as of June 30, 2004*, (December 2004), at Table 10: "CLEC-Reported End-User Switched Access Lines by State (as of June 30, 2004)" and Table 6: "End-User Switched Access Line Served by Reporting Local Exchange Carriers (As of June 30, 2004)."

Verizon NJ dominates 80 percent of New Jersey's local markets.[41] Furthermore, as we discuss in more detail below, CLECs' demand for UNE-P has peaked and is now declining as the UNE-P expiration date approaches. Verizon's retail market share will likely climb as demand for UNE-P declines. MCI and AT&T presently serve a significant number of households and small businesses in New Jersey.[42] As the FCC recently stated, a "high market share does not necessarily confer market power, but it is generally a condition precedent to a finding of market power."[43] Verizon and other ILECs continue to control the "last mile" to customers, and, as a

[41] *Id.*, at Table 6. CLECs provided 1,319,513 end-user access lines, the vast majority (987,393) provided through the use of UNEs. CLECs also relied on resold lines (226,662) and provided just 105,458 facilities-based lines. *Id.*, at Table 10.

[42] AT&T serves significant quantities of business lines and customers with its "All in One" service (which it describes as "its principal offer to small business customers)" and also serves significant numbers of residential customers. BPU Docket No. TO1020095, *In the Matter of the Application of Verizon New Jersey, Inc. For Approval (i) of a New Plan for an Alternative Form of Regulation and (ii) to Reclassify Multi-line Rate Regulated Business Service as Competitive Services*, Responses of AT&T Communications of New Jersey, L.P. to Verizon New Jersey Inc.'s First Set of Supplemental Interrogatories, AT&T Response to VNJ-ATT-1, January 28, 2005; AT&T Response to Ratepayer Advocate Transcript Request. MCI is also a significant supplier in New Jersey's mass market. *Id.*, MCI Response to Ratepayer Advocate Transcript Request. The specific quantities of customer demand are not provided in this Declaration because they have been afforded proprietary treatment by the Board. The FCC should seek detailed customer data from the merger applicants in this docket and WC Docket No. 05-65. Assuming the probable scenario that Verizon wins back these customers and other CLEC customers presently served by UNE-P, Verizon's retail market share will be vastly higher than the approximate 80 percent Verizon now serves.

[43] *In the Matter of Special Access Rates for Price Cap Local Exchange Carriers; AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, FCC WC Docket No. 05-25; RM-10593, *Order and Notice of Proposed Rulemaking*, Released January 31, 2005 ("Special Access NPRM"), at para. 103, citing U.S. Department of Justice and the Federal Trade Commission, Horizontal Merger

result, dominate local markets and adjacent markets for related telecommunications products and services.

26. In New Jersey Board of Public Utilities Docket No. TO01020095, we analyzed confidential data about CLECs' presence in local markets in New Jersey. The data show that competition to provide local service still involves only a handful of companies[44] and that CLECs have not yet deployed switches in many New Jersey wire centers.[45] The absence of UNE-L based deployment combined with the potential elimination of Verizon's two largest competitors effectively closes the door on competitive choice for New Jersey's residential and small business customers.

27. The FCC, in its order approving the SBC/Ameritech merger, stated:

Guidelines, issued April 2, 1992, revised April 8, 1997 ("Horizontal Merger Guidelines"), § 1.11

[44] *In the Matter of the Application of Verizon New Jersey, Inc. for Approval (I) of a New Plan for an Alternative Form of Regulation and (II) to Reclassify Multi-Line Rate Regulated Business Services as Competitive Services, and Compliance Filing*, New Jersey Board of Public Utilities Docket No. TO01020095, Rebuttal Testimony of Susan M. Baldwin, on behalf of the New Jersey Division of the Ratepayer Advocate, February 4, 2005, at Confidential Exhibit SMB-3. (The exhibit is based on Verizon Response to RPA-VNJ-28 (Lynx Survey Question 11)). These data are not included with this declaration because they are covered by a proprietary agreement in the Board's proceeding.

[45] *Id.*, at Confidential Exhibit SMB-6. (The exhibit, which is based on Verizon's responses to RPA-VNJ-34(a) and RPA-VNJ-2, shows UNE-L deployment at a wire center level in New Jersey.) These data are not included with this declaration because they are covered by a proprietary agreement in the Board's proceeding.

> Following passage of the 1996 Act, local telecommunications markets have been undergoing a transition to competitive markets, so a transaction may have predictable yet dramatic consequences for competition over time even if the immediate effect is more modest. Therefore, when a transaction is likely to affect local telecommunications markets, our statutory obligation requires us to assess future market conditions. In doing so, the Commission may rely upon its specialized judgement and expertise to render informed predictions about future market conditions and the likelihood of success of individual market participants.[46]

When the FCC approved the SBC/Ameritech merger, there was a glimmer of hope for local competition. As the FCC applies its "specialized judgment and expertise" to the pending Verizon/MCI merger, it should take stock of the waning local competition in today's market, and the chilling impact of the pending transaction on future markets.

Verizon's acquisition of MCI would further diminish the prospects for residential and small business competition.

28. The prospect of competitive choice among suppliers of basic local telecommunications services for mass market consumers has already suffered serious setbacks. The FCC's approvals of Verizon's entry into the long distance market in fourteen jurisdictions[47] has enabled Verizon

[46]*In re: Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, for Consent to Transfer Control*, FCC CC Docket No. 98-141, *Memorandum Opinion and Order*, Rel. October 8, 1999 ("SBC/Ameritech Merger Order"), at para. 51, note omitted.

[47]http://www.fcc.gov/Bureaus/Common_Carrier/in-region_applications/. Before its merger with Bell Atlantic, GTE served fifteen jurisdictions. GTE did not require Section 271 authority to offer long distance service. Telecommunications Act of 1996, Pub. LA. No. 104-104, 110 Stat. 56 (1996). Section 271 [47 U.S.C. 271(a) states: "GENERAL LIMITATION.--Neither a Bell operating company, nor any affiliate of a Bell operating

to leverage its unique position in the local market to enter new markets by bundling its local and long distance services for consumers. Also benefitting Verizon, the FCC recently decided to forbear from regulating regional Bell operating companies' broadband deployment.[48] Without detailed accounting, which is subject to regulatory audit, it is difficult to detect and to prevent cross-subsidization of Verizon's entry into broadband with revenues from non-competitive services.

29. AT&T and MCI have stopped or decreased the marketing of their residential telephone service, which enables Verizon (and other Bells) to dominate the long distance market.[49] One article characterized the decision in this manner:

> AT&T's move is a potential windfall for the Bells . . . which have been increasingly successful in selling packages of local and long distance. Mr. Dorman said AT&T's decision to withdraw was clinched by a recent regulatory setback that will make it more expensive for AT&T and others to rent the Bells' lines to sell similar packages. MCI Inc. and Sprint Corp. also have throttled back

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company, may provide interLATA services except as provided in this section."

[48]*See*, for example, *In the Matter of Petition for Forbearance of the Verizon Telephone Companies Pursuant to 47 U.S.C. § 160(c), SBC Communications Inc.'s Petition for Forbearance Under 47 U.S.C. § 160(c), Qwest Communications International Inc. Petition for Forbearance Under 47 U.S.C. § 160(c), BellSouth Telecommunications, Inc. Petition for Forbearance Under 47 U.S.C. § 160(c)*, Federal Communications Commission WC Docket Nos. 01-338, 03-235, 03-260, 04-48, *Memorandum Opinion and Order* ("FCC Broadband Forbearance Order"), Rel. October 27, 2004.

[49]Last summer, AT&T announced its plan to pull out of seven states. "AT&T: No New Home Customers in 7 States," Reuters, June 23, 2004, http://news.yahoo.com/news?tmpl=story&u=/nm/20040623/bs_nm/telecoms_att_local_dc

on advertising and marketing.[50]

Many of the smaller competitors are also scaling back marketing and expansion plans.[51] Although ILECs may tout Voice over Internet Protocol ("VoIP") as gaining consumer appeal, as we discuss in Section III, this technology does not yet represent an economic substitute for basic local exchange service. The FCC's *TRRO* decision eliminates the major mode of entry for CLECs seeking to serve the mass market.

The imminent disappearance of UNE-P will likely eliminate the minimal mass market competition that has evolved, but Verizon has already been granted significant regulatory relief, premised in large part on the existence of that ephemeral UNE-P-based competition.

30. The shelf-life of UNE-P is short, with an expiration date of March 2006, relegating this mode of entry to the history books.[52] The end of the UNE-P era essentially closes the door on competition in the mass market.

[50] "AT&T Posts 80% Drop in Net, Confirms Consumer Retreat," *The Wall Street Journal*, July 23, 2004, page A11.

[51] "'Without rules in place that support vibrant competition in the telecommunications marketplace, competitive carriers and consumers are now unfortunately faced with great uncertainty,' said Donald Davis, Z-Tel's senior vice president-industry policy, in the June 21 letters. 'The victims of this dramatic shift in federal policy and the resulting uncertainty will be consumers.'" "Z-Tel to Cease New Residential Business in Eight States," *TR Daily*, June 22, 2004.

[52] *TRRO*, at para. 227. The FCC adopted a transition period of twelve months from the effective date of the *TRRO* in order to enable carriers to transition the existing, embedded base of CLEC customers being served via UNE-P to UNE-L. It is not at all evident that this transition will be successful (*i.e.,* trouble-free and economical for CLECs and their customers).

31. Furthermore, the short-lived availability of UNE-P provided a pretext for relaxing regulatory oversight of Verizon. AT&T witnesses aptly observed in a New Jersey proceeding regarding Verizon's request to classify business local exchange service offered to customers with two to four lines as competitive:

> The continued availability of UNE-P arrangements at reasonable rates was a critical assumption in this Board's recommendation (and the FCC's decision) to grant Verizon entry into New Jersey's interLATA market under Section 271 of the Federal Telecommunications Act of 1996. It was also a factor in the Board's prior Decision and Order in the instant proceeding.[53]

The AT&T witnesses continued:

> The Board stated on page 149 of its 2002 *Decision and Order* that "The *NJ UNE Remand Order* substantially modified the Board's prior December 2, 1997 UNE decision…and, we believe, has effectively removed any concern that UNE prices, terms or conditions continue to constitute a barrier to local exchange entry in New Jersey." The recent FCC ruling effectively reverses much of the Board's *UNE Remand Order* and therefore calls into question the fundamental basis for the Board's 2002 *Decision and Order* in this matter.[54]

The foundation for the New Jersey Board's earlier decisions to relax oversight of Verizon has crumbled, yet Verizon continues to enjoy its regulatory freedoms.

32. End-user lines provided by CLECs through UNEs are declining. Verizon reported

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[53] *In the Matter of the Application of Verizon New Jersey, Inc. for Approval (I) of a New Plan for an Alternative Form of Regulation and (II) to Reclassify Multi-Line Rate Regulated Business Services as Competitive Services, and Compliance Filing*, New Jersey Board of Public Utilities Docket No. TO01020095, Supplemental Joint Testimony of Ola Oyefusi and E. Christopher Nurse on behalf of AT&T Communications of N.J., L.P., January 10, 2005, at 11.

[54] *Id*., at footnote 9.

providing 186,000 fewer UNE-P lines in the first quarter of 2005 compared with the fourth quarter 2004.[55] SBC's UNE-P lines declined by 364,000 in the first quarter of 2005 and decreased 10% (from 6.8 million to 6.1 million) from the first quarter 2004.[56] BellSouth and Qwest report similar results.[57] Confidential Exhibit 1a provides information regarding the number of UNE-P lines provided by Verizon from February 2003 through December 2004 and Confidential Exhibit 1b provides information regarding the total number of lines served by MCI using UNE-P from July 2003 through January 2005.

Verizon's phenomenal success in selling bundled services already raises significant regulatory concerns, which the merger would exacerbate.

33. One of the key regulatory freedoms that Verizon obtained in recent years was long distance authority.[58] Table 1, below, summarizes Verizon's Section 271 approvals, which have

[55]Verizon Investor Quarterly, VZ First Quarter 2005, released April 27, 2005.

[56]SBC Communications, Inc. Investor Briefing No. 247, April 25, 2005, at 3.

[57]"UNE-P access lines resold by BellSouth competitors were down 95,000 compared to year-end 2004." BellSouth Corporation Press Release, "BellSouth Reports First Quarter Earnings," April 21, 2005, available at: http://bellsouthcorp.com/proactive/newsroom/release.vtml?id=49407. Qwest recently noted that "More than 90 percent of the company's UNE-P revenue now comes from customers on commercial QPP contracts." Qwest Press Release, "Qwest Sees Significant Margin Expansion and Growth in Key Areas in First Quarter 2005, May 3, 2005 available at http://media.corporate-ir.net/media_files/irol/11/119535/q_q105er.pdf.

[58]Verizon obtained long-distance authority in New Jersey in 2002. *In the Matter of Application of Verizon New Jersey Inc., Bell Atlantic Communications, Inc. (d/b/a/ Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions), Verizon*

provided Verizon's gateway to remonopolizing telecommunications markets.

Table 1
Verizon Section 271 Approvals

State	Date Approved	State	Date Approved
New York	12/23/99	New Jersey	6/24/02
Massachusetts	4/16/01	New Hampshire	9/25/02
Connecticut	7/20/01	Delaware	9/25/02
Pennsylvania	9/19/01	Virginia	10/30/02
Rhode Island	2/24/02	DC	3/19/03
Vermont	4/17/02	Maryland	3/19/03
Maine	6/19/02	West Virginia	3/19/03

Source: http://www.fcc.gov/Bureaus/Common_Carrier/in-region_applications

34. Verizon's entry into the long distance market has been, and continues to be, enormously successful. According to its most recent quarterly financial report:

- Long distance revenues increased 8.3 percent between the first quarters of 2004 and 2005.
- Verizon's long distance revenues, in the first quarter of 2005, were $1.1 billion.
- In the first quarter of 2005, Verizon served over 8 million long distance lines, an

Global Networks Inc., and Verizon Select Services Inc., for Authorization To Provide In-Region, InterLATA Services in New Jersey, FCC WC Docket No. 02-67, *Memorandum Opinion and Order*, June 24, 2002.

11.6% increase from the first quarter of 2004.[59]

- Fifty-eight percent of Verizon's residential customers subscribe to local and long distance and/or Verizon's DSL service (an increase from 51 percent the previous year).[60]

35. Analysis of detailed CLEC and Verizon data in New Jersey led to the following observation about the comparative success of breaking into local and long distance markets:

> Verizon has been far more successful in entering new markets than have CLECs. Considering that Verizon received approval to offer long distance service less than three years ago, this success is enormous compared to the minimal inroads that CLECs have made in the local market that VNJ serves. The Telecommunications Act of 1996 was enacted approximately nine years ago, and yet the Eagleton Survey reports that CLECs *collectively* have garnered, at most, a 27 percent market share in the local market. In less than three years, Verizon, a single company, has made twice the inroads into the long distance market (more than a fifty percent market share) that all the CLECs have made over nine years, a period more than three times as long. In other words, collectively the CLECs have been, at best, half as successful as Verizon has been, and have taken more than three times as long as Verizon to achieve that tenuous success. [61]

[59]Verizon Communications Investor Quarterly, VZ first quarter 2005, April 27, 2005, at 3.

[60]*Id.*, at 4. Confidential Exhibits SMB-2a through 2d show the growth in residential and business prescribed long distance lines for Verizon and for Verizon New Jersey since the first quarter of 2003. Exhibits SMB-3, SMB-4, and SMB-5 show growth in demand for long distance, DSL, and wireless services as reported by Verizon to investors.

[61]*In the Matter of the Application of Verizon New Jersey, Inc. for Approval (I) of a New Plan for an Alternative Form of Regulation and (II) to Reclassify Multi-Line Rate Regulated Business Services as Competitive Services, and Compliance Filing*, New Jersey Board of Public

36. Verizon's long distance authority makes it vastly harder for CLECs to compete in Verizon's home region. Verizon NJ's substantial and unique advantage in the race to offer consumers bundled packages is directly tied to its century-long relationship with New Jersey consumers, as the primary link to the public switched telephone network This large and growing segment of Verizon NJ's business is occurring precisely at a time when the door has been shut in the face of CLECs who had sought to enter the local market. Mass market consumers, through many years of predictable demand for Verizon NJ's essential local telephone services, enabled Verizon NJ to establish a formidable position in the telecommunications marketplace. The combination of its entrenched position in the local market with its deployment of substantial resources to attract consumers to numerous packages is helping Verizon NJ lock in its market power. As Verizon NJ moves into new competitive markets, including broadband markets, it is essential to ensure that basic non-competitive services are not cross-subsidizing these new services.

Verizon's "Freedom" packages lock in customers.

37. Verizon offers four "Verizon Freedom for Business" packages.[62] Prices for the

Utilities Docket No. TO01020095, Testimony of Susan M. Baldwin, on behalf of the New Jersey Division of the Ratepayer Advocate, filed January 10, 2005, at 19-20.

[62]Verizon first offered Verizon Freedom packages to New Jersey customers on July 9, 2003. NJ BPU Docket No. TO01020095, Verizon New Jersey Inc. Response to RPA Request RPA-VNJ-26.

bundles, or packages, of services range between $15.00 (excluding local line charges) for a basic flat rate local calling plan to $272.95 for unlimited direct-dialed local regional and domestic long distance and a 20% discount on the monthly Verizon Online Business DSL rate. The four packages do not include any restrictions on calling times and local calling is unlimited. The particular prices that apply are not posted on Verizon's web site, which includes only a wide pricing range for one of the packages and "starting at" prices for the other three packages. The flat rate (unlimited) calling plans are available for up to ten qualified business lines. Local line charges are not included in the listed rates. Among the discounts that Verizon offers are:

- Free set-up for toll service when business customers elect to use Verizon as their long distance service provider and waiver of the monthly recurring charges for toll service for six months.
- A business customer that switches from another toll-free service provider receives 800 minutes of toll-free inbound use.
- Verizon offers a 20% discount off of its Business DSL rates when a customer elects to subscribe to "Freedom for Business" packages.
- Verizon's online description of packages available to New Jersey customers also indicates that Verizon "Freedom" packages are eligible for discounts on Verizon Wireless services.[63]

[63]Verizon Freedom Basic for Business, Local; Verizon Freedom Basic for Business, Local with Toll; Verizon Freedom for Business; and Verizon Freedom for Business with DSL. http://www22.verizon.com/Business/fyb/Packages/Packages/Verizon+Freedom+For+Business/Default.htm. For a printed copy of Verizon's web page detailing the plans, see Exhibit SMB-6.

38. Verizon also offers "Verizon Freedom" packages to its residential customers. The price for Verizon Freedom Unlimited is $49.95 per month for unlimited local, regional and U.S. long distance calling, plus three calling features. Verizon also offer "add-ons" for Freedom customers: Verizon Online DSL Internet Service for $29.95 per month and DIRECTV TOTAL CHOICE for $41.99 per month. Verizon offers a $5 monthly discount on the customer's total monthly bill if they also subscribe to DSL, DIRECTTV programming, Dial-up Internet service or ONE-BILL. Customers can "upgrade" their Freedom package to Verizon Freedom and receive discounts on international calls and five calling features for an additional $5 per month. Residential customers can also subscribe to International Choice Plan with City Rate or International Choice Plan Unlimited Country to receive "Verizon's best international rates" for an additional $4 per month.[64]

39. There is not anything, *per se,* that is anticompetitive about a firm offering packages, particularly if the firm that is supplying the packages is operating in an effectively competitive market. Price discrimination can benefit consumers by allowing consumers to select the service that maximizes the "utility" they derive from their expenditures. One example is Amtrak offering off-peak consumers lower rates for travel than peak consumers. Those consumers who

[64] http://www22.verizon.com/ForYourHome/sas/sas_Freedom.aspx. For a printed copy of Verizon's web page detailing the plans, see Exhibit SMB-7.

are indifferent to traveling during off-peak time (or who may actually prefer to do so) benefit from Amtrak's price discrimination. Similarly, Amtrak prices first class options differently from business class. If a restaurant offers a three-course gourmet meal for a "prix fixe" as an alternative to à la carte selections, consumers benefit from additional choices. The restaurant business is competitive and therefore, the prices are set competitively.

40. By contrast, although Verizon's one-stop shopping for its calling packages may offer customers the predictability and simplicity they seek, the FCC should be concerned because Verizon's packages include a blend of competitive services (long distance) and non-competitive (unlimited local calling). This combination of competitive and non-competitive products raises significant issues about potential anti-competitive pricing behavior. Furthermore, Verizon's packages blend interstate services with intrastate services, which further complicates regulation.

41. Verizon offers businesses unlimited local calling as an integral element of each of its four "Freedom" packages. Small business customers' alternative to unlimited local calling is a monthly bill with high usage charges. With unlimited local calling, Verizon avoids the cost of measuring and billing local calls and customers avoid the uncertainty of fluctuating usage charges. If Verizon perceives that business customers prefer flat rate local calling, Verizon NJ should offer its business customers the same option, but not link the option to a requirement to

purchase a "Freedom Package."

42. Of course, in the short term, consumer choice increases consumer welfare because consumers can select the package that yields the greatest benefit within their budget constraints. However, in the long term, the critical question is whether adequate safeguards prevent cross-subsidization of competitive services by non-competitive ones. The small business in New Jersey that does *not* select Verizon as its long distance provider should not be singled out for rate increases or wait longer for dial tone installation and customer service representative responsiveness than the small business that signs on the dotted line for a large "Freedom" package. In the short term, this impressive array of options may benefit business consumers, but if, in the long term, Verizon squeezes out its competitors, consumers are harmed by diminishing competitive choice.

43. Returning to our restaurant analogy, assume for the sake of illustration that tomatoes are a monopoly product. If the sole tomato supplier also owns a pizza chain, which sells pizzas in direct competition with its tomato customers, the tomato supplier will have the ability to offer lower-priced pizzas by charging more for its wholesale tomatoes than it imputes to its own pizza operations. The pizza chain customers would seem to benefit from low-priced pizza, but, in the long run, the departure of other pizza vendors from the market would harm consumers.

44. Verizon's bundled offerings also raise concerns about possibly anticompetitive tying arrangements. The FCC has previously investigated complaints about tying arrangements, such as when it concluded that the pay phone commissions offered by AT&T on its "0+" services were "an added inducement, when coupled with [AT&T's] dominance in the "0+" market, which AT&T [was] using as leverage in the "1+" market." The FCC's Common Carrier Bureau concluded that "AT&T's conduct ha[d] significant enough anticompetitive consequences to find an unreasonable practice." In its explanation of its finding, the FCC stated, among other things, the "unbundling policy also prevents a carrier from configuring the basic service elements in a way which would be anticompetitive."[65] In a subsequent order the FCC explained the Bureau's order as finding "that AT&T's tying of its "0+" service to its "1+" service violates the underlying policy goals of the antitrust laws, and is, therefore, unreasonable under Section 201(b),"[66] concluded that AT&T's bundling practices "constitute[d] an unreasonable practice in violation of Section 201(b) of the Communications Act,"[67] and declined to vacate the Bureau's order.[68] Verizon's and other Bell's bundling practices merit

[65] *In the Matter of AT&T's Private Payphone Commission Plan*, File No. ENF-87-19, *Memorandum Opinion and Order*, October 3, 1998, 3 Rcd (1988), at paras. 26-27.

[66] *In the Matter of AT&T's Private Payphone Commission Plan*, File No. ENF-87-19, *Memorandum Opinion and Order*, October 3, 1998, 7 Rcd (1992), at para. 11.

[67] *Id.*, at para. 16.

[68] *Id.*, para. 17.

further regulatory scrutiny, similar to that afforded more than ten years ago to AT&T's pay phone practices.

Verizon's plan to *increase* its long distance rates suggests that market forces do not constrain its prices.

45. Effective May 18, 2005, Verizon will impose a $2 increase in the long distance portion of Freedom for Business month-to-month calling plans. Verizon informs consumers, "[y]ou can avoid this $2 price increase and save an additional $2 by subscribing to a one-year term commitment (applicable terms and conditions apply)."[69] Verizon's ability to *raise* rates for its long distance service suggests that competition is lacking in the bundled services market. Furthermore, Verizon's offer to waive the rate increase for those consumers who commit to a one-year term of service is further evidence of Verizon's strategic interest in locking in consumers to its services.

46. Among other things, regardless of the outcome of the proposed Verizon/MCI merger, the FCC should analyze the following:

- Is Verizon compensating Verizon New Jersey and other local Verizon companies adequately for the use of their local network and brand recognition?

[69] http://www22.verizon.com/Business/fyb/Packages/Packages/Verizon%20Freedom%20For%20Business/222/222_NJ. For a printed copy of Verizon's web page detailing the plans, see Exhibit SMB-6.

- Are basic local exchange services customers who do not subscribe to Freedom packages receiving the same quality of service as customers of Verizon's bundles receive?
- Consumers of the four "Freedom" packages pay a flat rate for unlimited usage and those businesses in New Jersey who do not opt for a "Freedom" package are continuing to pay the message unit rate of $0.066.[70] Without data about consumers' actual average usage and information about the way in which Verizon compensates Verizon New Jersey for use of the local network, one cannot assess whether cross-subsidization occurs.
- Three of the four "Freedom" packages include unlimited "regional" calling. By contrast, Verizon-served businesses in New Jersey that do not opt for "Freedom" from toll charges pay between $0.06 and $0.13 per toll minute, *i.e*, substantially in excess of the incremental cost of usage of the public switched networks. High intraLATA toll rates provide additional incentive for businesses to sign up for "Freedom" packages. Without a comprehensive accounting of the revenues and expenses for these bundles, one cannot assess whether the businesses that rely on Verizon's "regular" unbundled services are subsidizing Verizon's pursuit of

[70]A message unit applies to each five-minute period or fraction thereof. For example, a six-minute call would be billed as two message units, or $0.132. Verizon New Jersey Inc., Tariff B.P.U. - N.J.-No. 2, Exchange and Network Services, Twelfth Revised Page 36, issued October 23, 2003.

customers of its packages.

47. Verizon's packages are clearly intended to attract customers who seek the convenience of flat rate calling and a single bill for multiple telecommunications services. Verizon states, "[y]ou must select and retain Verizon as your local and regional toll provider and Verizon Enterprise Solutions as your long distance service provider."[71] Verizon's aggressive foray into the bundled services market makes it that much harder for CLECs to make headway in local markets.

48. Individual consumers cannot be expected to consider the long-term public policy impact of Verizon's packages on the local market structure. As consumers, they maximize their utility by seeking the products they prefer at the least cost. By contrast, the regulators' responsibility is to ensure that, in the long term, effective local competition evolves, and, if it does not, and where it does not, to provide adequate regulatory oversight. If Verizon returns to its Ma Bell days enabling consumers to benefit from the simplicity of a single supplier of diverse packages, then FCC and state public utility commissions ("PUCs") should regulate Verizon where it has market power. Alternatively, if regulators continue to seek to encourage the development of

[71] http://www22.verizon.com/Business/fyb/Packages/Packages/Verizon+Freedom+For+Business/222/222_NJ.htm?state=nj&OrderingId=1

local competition, they confront the challenge of ensuring that Verizon does not cross-subsidize its competitive pursuits with non-competitive revenues or engaging in discriminatory tying arrangements. This will likely require audits of inter-affiliate transactions and cost studies for the relevant products.

49. Verizon's ability to offer local and long distance services to its home-region consumers makes it a formidable telecommunications competitor because it can more readily meet the demand of those customers that seek a single supplier of multiple telecommunications services. Verizon is a first point of contact for many customers, a position it enjoys as a result of its many years as the incumbent carrier.

Verizon possesses a unique and formidable advantage that the proposed merger with MCI would enhance.

50. Verizon is uniquely positioned to offer comprehensive packages of telecommunications services to residential and small business customers. Its position is unique because (1) it is the most widely recognized provider of local service; (2) it dominates the local market; (3) it has a pre-existing and long-term relationship with its customers; and (4) it has unique access to a vast customer base. Verizon can provide customers with bundled plans that lock them into Verizon as a provider of multiple services, including local telecommunications services

51. The following definition conveys the meaning that we intend in our discussion of Verizon's marketing and sales of its telecommunications bundles. Lock-in is:

> a situation in which a customer is dependent on a vendor for products and services and cannot move to another vendor without substantial switching costs, real and/or perceived. By the creation of these costs to the customer, lock-in favors the company (vendor) at the expense of the consumer. Lock-in costs create a barrier to entry in a market that, if great enough to result in an effective monopoly, may result in antitrust actions from the relevant authorities.[72]

52. Another relevant definition of lock-in that captures consumers' decision-making process is as follows:

> Lock-in is defined as consumers' decreased propensity to search and switch after an initial investment. Lock-in is driven by a preference to minimize immediate costs and an underweighting of the impact of future switching costs. Consumers tend to focus on short-term considerations and select the more easily accessible option at the time of the transaction, even at the cost of forgoing future benefits. Consumers also fail to anticipate the impact of future switching costs, and when the future arrives, these switching costs dominate these later decisions in ways that consumers do not anticipate when making the initial decision.[73]

53. At this juncture, there is inadequate information to assess whether the "Freedom Packages" are anti-competitive. However, we urge the Commission to address this important

[72]http://en.wikipedia.org/wiki/Vendor_lock-in.

[73]Gal Zauberman, "The Intertemporal Dynamics of Consumer Lock-In," *Journal of Consumer Research* (December 2003, 30(3), 405-419), at 3.

question, regardless of its decisions in this merger proceeding. In one paper exploring the use of bundling as a way to leverage monopoly, the author explains:

> Imagine that the monopoly price of good A is m, and the competitive price of good B is c. The monopolist offers its customers the following deal: I'll sell you A at a discount, say m-ε, in return for which you agree to buy all of your good B from me at a premium, say c+δ. Or, you can still buy good A from me at m.[74]

54. Verizon offers various bundles of services, including several that include unlimited local usage and toll usage. Without access to comprehensive data about consumers' usage patterns (*e.g.,* local and toll usage), and interaffiliate transactions between Verizon and Verizon NJ (*e.g.*, cost and revenue information), one cannot assess whether an antitrust concern exists. Confidential Exhibit SMB-2a through 2d, attached to this declaration, illustrates Verizon's enormous success in capturing long distance market share, *even before the merger*. Exhibits SMB-6 and SMB-7 include information about Verizon's Freedom Packages.

55. The BOCs' long distance offerings raises regulatory concerns that merit investigation *before* the FCC considers approving pending mergers. Regarding one BOC, the FCC stated:

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[74]Barry Nalebuff, "Bundling As a Way to Leverage Monopoly," Yale School of Management, Working Paper #36, at 3. Also see page 2, where the author states "[w]hile there are some special cases in which leverage does not lead to higher profits, in the general case, a monopolist can earn higher profits by leveraging its power into a competitive market."

> As an example of the type of discriminatory tariffs about which we are concerned, the Commission recently found that BellSouth's Transport Savings Plan (TSP) discriminates in favor of BellSouth's interexchange affiliate in violation of section 272. See AT&T Corp. v. BellSouth Telecommunications, Inc., FCC 04-278, Memorandum Opinion and Order (rel. Dec. 9, 2004) (holding that the TSP's volume discounts violate section 272 by favoring low-volume and rapidly growing long distance companies, like BellSouth Long Distance, and disfavoring BellSouth Long Distance's larger competitors, and further holding that the 90% volume commitment requirement contained in BellSouth's TSP tariff violates section 272).[75]

56. When one considers what is at stake, namely the rates, terms and conditions for Verizon's telecommunications services and the development of fair and effective competition, the costs and effort of an audit are justified. Recently, when confronted with Verizon's request to discontinue the auditing condition of the Bell Atlantic/GTE merger, the FCC stated:

> We reject Verizon's claim that these compliance requirements obviate the need for the independent auditor condition. As previously stated, the Commission found that the compliance program protected the public interest, but only in conjunction with the independent auditor condition. A quarterly report or compliance reports is not a substitute for an independent auditor condition. Verizon's obligations to file unaudited quarterly and compliance reports do not provide an independent review of Verizon's performance. During the audit process, the Commission staff, state commissions, and independent auditor have access to the working papers, supporting materials, and interpretations underlying Verizon's compliance assertions that may not be disclosed in the performance reports or available to third parties. Finally, when contemplating the merger, the Commission considered the independent auditor condition a useful tool to supplement its usual investigative authority. In view of the foregoing, we find no reason to alter our prior conclusion that the compliance mechanisms discussed in Verizon's request are not substitutes for the independent auditor condition.

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[75] *TRRO*, footnote 163.

> Lastly, Verizon contends that we should discontinue the audit requirement because "the audits for the years 2005 and beyond would cost at least one million dollars," and "the burdens of continued audits clearly outweigh any possible benefits." We find this contention unpersuasive. The Commission specifically found that "the audit requirement establishes an efficient and cost-effective mechanism for providing reasonable assurance of Bell Atlantic/GTE's compliance with the conditions." Verizon has not provided substantial evidence to contradict this finding. We conclude that, therefore, Verizon has not demonstrated that discontinuing the independent auditor condition would serve the public interest.[76]

[76] *In the Matter of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, for Consent to Transfer of Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, EB File No. EB-04-IH-0143, *Order*, released January 7, 2005, paras. 7-8, footnotes omitted. The FCC also recently rejected SBC's request to discontinue the independent auditor condition of its merger with Ameritech. *In the Matter of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, for Consent to Transfer of Control*, CC Docket No. 98-141, EB File No. EB-04-IH-0216, *Order*, released January 7, 2005, paras. 8-9, footnotes omitted.

III. INTERMODAL SERVICES

Intermodal alternatives do not yet provide economic substitutes for basic voice grade service.

57. According to the Applicants:

> ... a properly defined product market for mass market customers is not limited to wireline telephony, let alone more discrete segments such as local and long distance. Instead, cable switched telephony and VoIP offerings are part of the same product market as wireline voice service. In addition, wireless services have become a replacement for traditional landline service, particularly for long distance. A growing number of consumers are abandoning traditional wireline services completely and using wireless technology instead. And services such as VoIP, e-mail, and instant messaging also are displacing increasing amounts of wireline voice traffic. As we explain further below, even though these products are not all perfectly fungible for all consumers, a sufficient number of mass-market customers perceive these to be viable alternatives such that they constrain the pricing of one another.[77]

For the reasons discussed in detail below, we disagree with the Applicants' contention that the relevant product market is not limited to wireline telephony.

58. Economists generally agree that defining the market properly is an essential first step to assessing market structure. As stated by some:

> The first step in any analysis of competition in a market is to properly define the product and geographic dimensions of the relevant market. If a market is defined

[77] Crandall/Singer (Verizon/MCI), at para 6.

> either too broadly or too narrowly, spurious conclusions may arise.[78]

In considering substitution possibilities, further economic discussion of the complexities of defining relevant products is as follows:

> The ideal definition of a market must take into account substitution possibilities in both consumption and production. On the demand side, firms are competitors or rivals if the products they offer are good substitutes for one another in the eyes of buyers. But how, exactly, does one draw the line between 'good' and 'not good enough' substitutes.[79]

59. For example, to a Bostonian, a ticket to a Yankees game might not be a *good enough* substitute for a ticket to a Red Sox game. Yet, to a resident of Seattle, tickets to see the Yankees or the Red Sox could be interchangeable. Verizon and MCI fail to justify their reliance on intermodal service as a "good enough" substitute for land-line service. Consumers are in a far better position than the Applicants to decide whether wireless, VoIP, or cable represent "good" substitutes for basic telecommunications service. The most valuable and unbiased evidence about consumers' preferences are consumers' actual purchasing decisions.[80]

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[78] David L. Kaserman and John W. Mayo, "Competition in the Long-Distance Market," *Handbook of Telecommunications Economics*, Vol.1, Martin E. Cave, Sumit K. Majumdar, and Ingo Vogelsang, eds., (Elsevier: Amsterdam, 2002), at 512.

[79] *Industrial Market Structure and Economic Performance*, F. M. Scherer (Chicago: Rand McNally & Company, 1970), at 53.

[80] Consumers, through their purchasing decisions, seek to maximize their utility, and in so doing show their "preferences." See generally, Mas-Colell, Andreu, Michael D. Whinston and Jerry R. Green, *Microeconomic Theory* (New York: Oxford University Press, 1995).

60. Consumers attribute high "utility"[81] to the ability to reach medical, safety, and emergency assistance in a reliable, timely manner, whether to meet the needs of young children, the elderly, or other household members and business employees. Society's investment in substantial resources to deploy state-of-the-art emergency response systems and public safety officials' widespread efforts to geocode consumers' addresses to enable prompt public safety response are compelling evidence of the utility (or value) that consumers ascribe to E911. That a tiny percentage of the population may choose to abandon wireline entirely does not alter the fact that the vast majority of households and small businesses place a high value on the public safety characteristics of wireline telephone service.[82] The preferences of a minority certainly

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[81]As defined in one textbook, "it is possible to show formally that people are able to rank in order all possible situations from the least desirable to the most. Following the terminology introduced by the nineteenth-century political theorist Jeremy Bentham, economists call this ranking *utility*. We will also follow Bentham by saying that more desirable situations offer more utility than do less desirable ones." Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions,* seventh edition, (The Dryden Press, 1998), at 70 (footnotes omitted; emphasis in original).

[82]FCC Chairman Martin appeared before the House Appropriations SubCommittee on Science, State, Justice and Commerce, and Related Agencies on April 26, 2005 and panel members raised concerns regarding the routing of 911 calls made from VoIP services. "Update: FCC Head Gets Indecency Grilling From House Panel," *The Wall Street Journal Online*, April 26, 2005. As reported recently, "Internet-based phone services, including Vonage and AT&T Corp's CallVantage, are most economical for people who get their Internet connection from a cable company and are willing to disconnect their conventional phone line, a move many consumers still view as risky since the service is in its infancy. Internet phone service won't work if the power or Internet service goes out. And many Internet-based services don't connect to 911 the same way conventional phone lines do." "All in One," *The Wall Street Journal*, September 13, 2004, Page R6.

does not constitute evidence that intermodal technology offers an economic substitute for the majority of consumers who continue to rely on traditional wireline service.

It is essential that the FCC correctly define the relevant markets before it analyzes the proposed merger.

61. In its Notice of Proposed Rulemaking ("NPRM") of August 2004 in the Triennial Review proceeding, the FCC appropriately sought comment on "how best to define relevant markets (*e.g.*, product markets, geographic markets, customer classes) to develop rules that account for market variability and to conduct the service-specific inquiries to which *USTA II* refers."[83] The *Triennial Review NPRM*, incorporated by the FCC into the August 2004 *NPRM*, also sought comment on how best to define markets.[84] Defining markets accurately is equally important in the FCC's investigations of mergers.

62. In its August 2004 *NPRM*, the FCC states that the *USTA II* decision requires that it "must account for specific characteristics of the market in which a particular requesting carrier

[83] *In the Matter of Unbundled Access to Network Elements, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, WC Docket No. 04-313, CC Docket No. 01-338, *Order and Notice of Proposed Rulemaking*, released August 20, 2004 ("NPRM"), at para. 9.

[84] *Id.*, at para. 11, footnote 39; *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98, 98-147, *Notice of Proposed Rulemaking*, 16 FCC Rcd 22781 (2001) ("Triennial Review NPRM"), at paras. 39, 43, 57-58.

operates" when undertaking its impairment analysis.[85] The D.C. Circuit Court of Appeals found in *USTA II* that "the FCC is obligated to establish unbundling criteria that are at least aimed at tracking relevant market characteristics and capturing significant variation."[86] This follows the Court's objection expressed in *USTA I*, to the FCC's issuance of "broad" unbundling rules that apply across all geographic markets and customer classes "without regard to the state of competitive impairment in any particular market."[87]

63. Unfortunately, in its order, the FCC abandoned its earlier, apparent intention to analyze specific markets in detail.[88] Nonetheless, the proper definition of relevant markets is essential for analyzing the impact of proposed mergers on the development of competition. Relevant markets include product markets (*i.e.*, mass market vs. enterprise market), geographic market (*i.e.*, the physical boundaries), and customer class (*i.e.*, residential vs. business).

64. Economic theory relies, in part, on the presence of price discrimination to define markets.[89] In their *Horizontal Merger Guidelines*, the U.S. Department of Justice ("DOJ") and

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[85] *NPRM*, at para. 9, footnote 35.

[86] *USTA II*, at 9.

[87] *Id.*, citing *USTA I*, 290 F.3d, at 422.

[88] See, *e.g.*, *TRRO*, at paras. 43, 199.

[89] Horizontal Merger Guidelines, Department of Justice and the Federal Trade Commission, issued April 2, 1992, revised April 7, 1997 ("Horizontal Merger Guidelines"*)*, § 1.12.

the Federal Trade Commission ("FTC") define a market "as a product or group of products and a geographic area in which it is produced or sold such that a hypothetical profit-maximizing firm, not subject to price regulation, that was the only present and future producer or seller of those products in that area likely would impose at least a 'small but significant and nontransitory' increase in price, assuming the terms of sale of all other products are held constant." The DOJ and FTC explain further that a "relevant market is a group of products and a geographic area that is no bigger than necessary to satisfy this test."[90] An illustration from New Jersey makes this point. A customer who resides in Bergen County cannot substitute the local service offered by a CLEC in Monmouth County. The evidence for New Jersey's local markets shows that CLECs compete on a wire center basis, and the mere fact that a CLEC serves a particular wire center does not imply that it serves all 81 zone 1 and zone 2 wire centers in the Newark MSA nor that it serves all fifteen zone 1 and zone 2 wire centers in the Camden MSA.[91] An excessively broad market masks important structural differences within the area.

65. The Applicants claim that the proposed merger will not adversely affect competition for mass-market customers, in part because "intermodal alternatives such as cable, wireless, and VoIP already provide significant and intensifying competition for mass-market

[90] *Horizontal Merger Guidelines*, § 1.0.

[91] *Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Local Exchange Carriers*, Federal Communications Commission WC Docket No. 04-313; CC Docket No. 01-338, Affidavit of Susan M. Baldwin, on behalf of the Ratepayer Advocate, filed October 4, 2004, para. 49, Confidential Attachments.

customers, particularly in Verizon's service territory."[92] One of the Applicants' declarants asserts:

> The communications business is rapidly being restructured around new technologies. Cable companies, VoIP providers, wireless carriers and other companies have rapidly emerged as the significant competitors for mass market communications services. This competition will be unaffected by the transaction between Verizon and MCI.[93]

66. However, "this competition" that the Applicants describe is irrelevant to competition in the mass market for basic local exchange service. The Applicants' frequent references to intermodal alternatives[94] shed no light on the impact of the merger on the market for plain old telephone service ("POTS") offered to residential and small business customers. The Applicants contend that:

> Marketplace evidence demonstrates that consumers view wireless, cable switched telephony, and VoIP as viable competitive alternatives to wireline voice service. As a result, the Verizon-MCI transaction should not generate price effects in the mass market for communications services.[95]

However, as we demonstrate in this section of our Declaration, wireless, cable switched

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[92]Public Interest Statement, at 34. See, also, Crandall/Singer (Verizon/MCI), at para. 5.

[93]Declaration of Michael K. Hassett, Kathy Koelle, Katherine C. Linder, and Vincent J. Woodbury ("Hassett et al"), at para. 101.

[94]See, *e.g.*, Public Interest Statement, at 34; Crandall/Singer (Verizon/MCI), at para. 5; Hassett et al, at para. 101; Declaration of Ronald H. Lataille, at para. 3; Declaration of Gustavo E. Bamberger, Dennis W. Carlton, and Allan L. Shampine, at para. 9.

[95]Crandall/Singer (Verizon/MCI), at para. 32.

telephony, and VoIP do not constrain ILECs' prices and service quality for basic voice grade service.

67. Residential consumers' increasing reliance on DSL and intermodal substitutes for *additional* lines does not provide evidence of facilities-based competition in the provision of mass market consumers' primary lines. Intermodal competition that disciplines dominant carriers' prices, service quality, and service innovation is still in the future. Rather than rely on data based on now-extinct forms of competition (*i.e*. UNE-P) and on future, uncertain competition, the Commission should base its review of the merger on the local market structure as it exists today. This is consistent with the Commission's decision in its *Cingular/AT&T Wireless Merger Order* to base its findings on the current state of intermodal competition instead of estimates of potential future competition.[96]

68. Cable is a supplement to, rather than substitute for, traditional local exchange service. As the FCC concluded in its Triennial Review proceeding:

[96] *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation for Consent to Transfer of Control of Licenses and Authorizations, File Nos. 0001656065, et al.; Applications of Subsidiaries of T-Mobile USA, Inc. and Subsidiaries of Cingular Wireless Corporation for Consent to Assignment and Long-Term De Facto Lease of Licenses, File Nos. 0001771442, 0001757186, and 0001757204; Applications of Triton PCS License Company, LLC, AT&T Wireless PCS, LLC, and LaFayette Communications Company, LLC For Consent to Assignment of Licenses, File Nos. 0001808915, 0001810164, 0001810683, and 50013CWAA04*; FCC WT Docket Nos. 04-70; 04-254; 04-323, *Memorandum Opinion and Order*, rel. October 26, 2004 ("Cingular/AT&T Wireless Merger Order"), at para. 242.

> Some incumbent LECs, nevertheless, argue that the Commission should reach similar conclusions about the state of competition in local exchange markets, particularly based on competition from cable companies. As discussed more fully below, we consider such evidence of competition from cable providers as part of our impairment analysis. Our review shows that cable companies predominantly compete in the mass market for broadband services throughout the country. To the extent that they compete in other product markets, like the enterprise services market, such competition is evolving more slowly and in more limited geographic areas.[97]

69. The FCC also concluded in the *TRRO* that VoIP is not a substitute for basic local exchange service:

> Some commenters argue that the Commission should deny access to UNEs for the provision of local exchange service due to intermodal competition and voice over IP (VoIP). . . . We disagree. Customers seeking to use VoIP as a substitute for circuit-switched telephone service must first subscribe to a broadband service, such as DSL or cable modem service. While broadband penetration rates are increasing, broadband service today is far from ubiquitous. . . . see also Verizon Comments, Attach. I, Declaration of Michael K. Hassett & Vincent J. Woodbury (Verizon Hassett/Woodbury Decl.) at para. 38 (claiming that that the broadband penetration rate is approximately 25%), MCI Reply at 17 (claiming that the broadband penetration rate is approximately 21%). In addition, customers who use DSL as their broadband platform generally must also subscribe to wireline telephone service in order to obtain, or at least to obtain widely advertised rates for, that DSL service, which suggests that for such customers VoIP is purchased as a supplement to, rather than a substitute for, traditional local exchange service. . . . *Although we recognize that limited intermodal competition exists due to VoIP offerings, we do not believe that it makes sense at this time to view VoIP as a substitute for wireline telephony.* See, e.g., AWS/Cingular Merger Order, 19 FCC Rcd, para. 238 n.557 (recognizing that SBC and BellSouth face some competition from cable operators and VoIP providers); cf. also MCI Reply at 12 (claiming that only 200,000 subscribers

[97] *TRRO*, at para. 39.

currently subscribe to VoIP services).[98]

Wireless service is not an economic substitute for basic telecommunications service.

70. While wireless telecommunications services are prevalent, with approximately 167 million U.S. consumers subscribing to wireless services,[99] wireless service supplements and does not replace wireline service. A recent study conducted by Rutgers University for the New Jersey Board of Public Utilities corroborates this fundamental characteristic of wireless and specifically demonstrates that wireless service is not a "like or substitute service" for basic local exchange service offered to small businesses. Although 45 percent of all businesses surveyed in New Jersey used wireless services to make some of their local calls, the study found that only "about one percent of businesses name wireless as their primary means of making local telephone calls."[100]

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[98] *Id.*, footnote 118, emphasis added, some notes included. See, also, *Wall Street Journal*, "Telecom Mergers Limit Choices of Consumers," February 4, 2005, stating: "Another problem with Internet calling [VoIP] is that local phone companies, except Qwest, won't sell Internet-based phone service a la carte. That means customers who have DSL from their Bell and want Internet-based service must continue to pay for basic local phone service." While we recognize that Verizon has recently announced plans to offer "naked DSL," the offering remains very limited. See our discussion regarding "naked DSL" below.

[99] *Local Telephone Competition: Status as of June 30, 2004*, Industry Analysis and Technology Division, Wireline Competition Bureau, FCC, December 2004, at Table 13.

[100] *Local Business Telephone Service in New Jersey: A Survey of Small Businesses*, Conducted for the New Jersey Board of Public Utilities by the Eagleton Institute of Politics, Center for Public Interest Polling, The State University of New Jersey, Rutgers ("Eagleton Survey"), at 11, and footnote 3.

71. Wireless serves as a substitute to bundled telecommunications offerings and not as a substitute for basic local exchange service. Contrary to the ILECs' widespread and concerted efforts to persuade regulators to the contrary,[101] intermodal competition does not represent an economic substitute to basic wireline service.[102]

72. ILEC reports that subscribers are abandoning wireline in favor of wireless do not provide support that wireline and wireless phones are truly economic substitutes. The *UNE*

[101] *See*, for example, "Study: Regulations Not Needed Due to Intermodal Competition," *TR Daily,* December 14, 2004, citing "Wireless Substitution and Competition: Different Technology but Similar Service - Redefining the Role of Telecommunications Regulation, by Stephen B. Pociask, Competitive Enterprise Institute, December 15, 2004; *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC WC Docket No. 04-313; CC Docket No. 01-338, Reply Comments of Verizon, Attachment H, Reply Declaration of Robert W. Crandall and Hal J. Singer, October 19, 2004; *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC WC Docket No. 04-313; CC Docket No. 01-338 BellSouth Corporation, SBC Communications Inc., Qwest Communications International Inc., and the Verizon telephone companies sponsored the "UNE Fact Report 2004." Letter from Evan T. Leo to Marlene H. Dortch, October 4, 2004.

[102] *See*, for example, *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC WC Docket No. 04-313; CC Docket No. 01-338, Comments of the New Jersey Division of the Ratepayer Advocate, October 4, 2004, Affidavit of Susan M. Baldwin, September 30, 2004, at 72-74; *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC WC Docket No. 04-313; CC Docket No. 01-338, Reply Comments of the New Jersey Division of the Ratepayer Advocate, October 19, 2004, at 21-34; "The Promise of VoIP: Let Them Eat Cake from the Only Two Bakeries in Town," Pelcovits, Michael and Ken Baseman, MiCRA, November 2004, submitted in WC Docket No. 03-313, CC Docket No. 01-338.

Fact Report, submitted last year in the FCC's Triennial Review proceeding, claims that "[a]n increasing share of wireless subscribers are abandoning their wireline phone . . . Since the *Triennial Review*, the percentage of wireless users that have given up wireline service has grown from 3-5 percent to 7-8 percent."[103] ILECs also contend that approximately 14 percent of consumers "now use their wireless phone as their primary phone."[104] Apparently, the first statistic that the ILECs estimate refers to users who do not have wireline service at all, and the second statistic includes two categories of users – those who keep their wireline service but primarily use their wireless phone *and* those users who have disconnected their wireline service. The second statistic is less relevant because, until consumers actually disconnect their wireline service, their demand for wireless is not truly an economic substitute for a wireline connection to the public switched telephone network.

73. There are little data supporting the Applicants' assertion of mass migration and "significant and intensifying competition."[105] The FCC's most recent commercial mobile radio service ("CMRS") competition report indicates that "only a small percent of wireless customers

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[103] *In the Matter of Unbundled Access to Network Elements, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, WC Docket No. 04-313, CC Docket No. 01-338, *UNE Fact Report 2004*, prepared for and submitted by BellSouth, SBC, Qwest, and Verizon, October 2004 ("UNE Fact Report"), II-28, footnote omitted.

[104] *Id.*, at II-30.

[105] Public Interest Statement, at 34.

use their wireless phones as their only phone and relatively few have 'cut the cord' in the sense of cancelling their subscription to wireline telephone service."[106] The FCC's Wireless Telecommunications Bureau estimates that five to six percent of all U.S. households use wireless phones only.[107]

74. Intermodal alternatives are, in large part, substitutes for additional lines, not primary lines. One must analyze separately consumers' demand for *primary* and *additional lines.* Customers' preference for wireless, broadband, and/or VoIP in lieu of an *additional* wireline does not provide evidence that intermodal alternatives are economic substitutes for the primary line. Wireless represents *new* demand that supplements customers' existing service and *substitutes for* additional lines. Between 2001 and 2002, the quantity of households that have telephone service that subscribe to additional lines declined by 6.4 million. In this same time period, the percentage of households with telephone service that subscribe to additional lines declined from 24.6 percent to 18.0 percent, which represents a substantial single-year change.[108]

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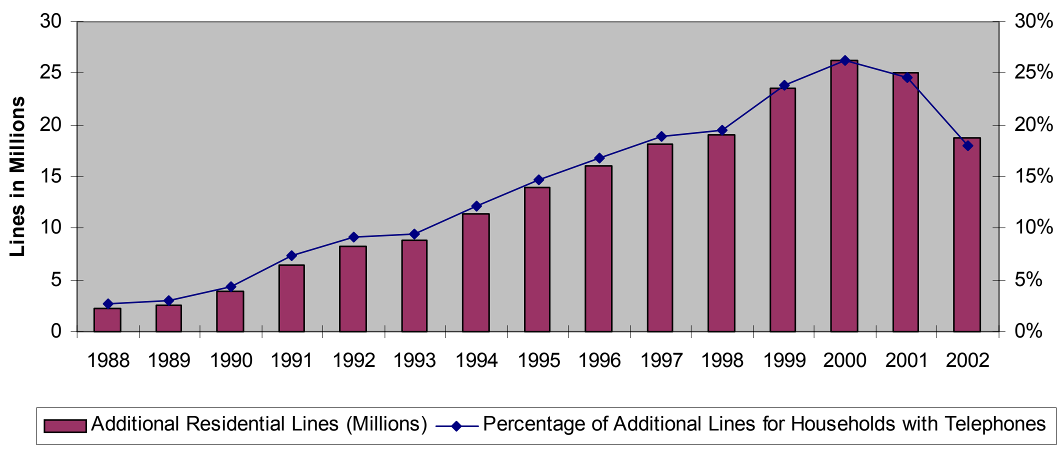
[106] *In the Matter of Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993*, FCC WT Docket No. 04-111; Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, *Ninth Report*, Rel. September 28, 2004 ("Ninth Annual CMRS Competition Report"), at para. 212.

[107] *Id.*, at fn 575.

[108] *Trends in Telephone Service*, Industry Analysis and Technology Division, Wireline Competition Bureau, May 2004, Table 7-4.

Figure 1
Additional Residential Lines for Households with Telephone Service



Source: *Trends in Telephone Service*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, May 2004, Table 7.4.

As Figure 1 shows, the substantial decline in absolute demand for additional ILEC lines continued between 2002 and 2003, decreasing by 15 percent.[109]

75. The FCC's Wireless Telecommunications Bureau highlighted this decline in additional lines in its Ninth Annual CMRS Competition Report last fall, noting that some consumers, while not cutting the cord completely, may be replacing additional lines with DSL, cable broadband or wireless means of communication.[110] The Bureau noted that the largest ILECs

[109]FCC, *Statistics of Common Carriers* 2003/2004 (as of December 31, 2003) and 2002/2003 (as of December 31, 2002), Table 2.4.

[110]Ninth Annual CMRS Competition Report, at para. 213 and fn 578.

were losing access lines and wireline long distance revenues in 2002 and 2003.[111]

76. However, recent earnings reports from the largest ILECs suggest that the trend has not continued as predicted. One can only speculate, but it appears that the BOCs' entry into the long distance market and aggressive use of bundled services have paid off. For example, SBC reported an increase in access lines in the first quarter of 2005 and both SBC and Verizon have experienced substantial increases in long distance revenues over the past year.[112] In fact, Verizon bundles its own wireline and wireless services together in one package, providing further evidence that wireless is viewed, even by the carriers themselves, as a complement, rather than substitute, to wireline service. Verizon reported to investors that it had a total of 4.7 million "Verizon Freedom packages" in service at the end of the first quarter of 2005, and that

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[111] *Id.*, at para. 213.

[112] SBC added 5 million long distance lines in the past year (a 29.6% increase) and increased its long distance revenues by 20.3% from the first quarter of 2004 to first quarter of 2005. (SBC Communications, Inc. Investor Briefing No. 247, April 25, 2005, at 2.). SBC experienced "significant improvement in retail access line trends" in the first quarter of 2005. SBC's total retail consumer primary lines were up 16,000 in the first quarter, the first increase in five years (compared to declines of 73,000 in fourth quarter 2004 and 156,000 in first quarter 2004). SBC's consumer additional lines declined by 104,000 (compared to declines of 119,000 and 149,000 in fourth quarter and first quarter of 2004, respectively). This was the smallest decline for additional lines in four years. (SBC Communications, Inc. Investor Briefing No. 247, April 25, 2005, at 3). Verizon reported an 8.3% increase over the year ending March 31, 2005 for wireline long distance and an 11.6% increase in the number of long-distance lines served over the same period. (Verizon Communications Investor Quarterly, VZ first quarter 2005, April 27, 2005, at 3).

"Verizon Freedom plans help retain and win back customers by offering local services with various combinations of long-distance, wireless and Internet access, available on one bill."[113]

77. The major power outage that occurred in large portions of the Midwest and Northeast in the summer of 2003 underscores one of several significant differences between wireline and wireless telephones. As reported by one major newspaper the day after the power outage began, "The regular public telephone network generally kept working after the power went out in parts of six states yesterday afternoon, but the cellular systems in affected areas were often unable to cope."[114] At a minimum, the degree of cross-elasticity of demand among telecommunications services must be assessed separately for primary versus secondary lines. Lack of access to E911 capabilities or for service when there is a power outage may be tolerable on a second line but unacceptable for a family's or an elderly person's primary line. The fact that a household may substitute a wireless service for a second line for a teenager is irrelevant to the preference that the same household may exhibit for the primary line that connects the household members' to the well-established public switched telephone network, emergency services and the ability to function during a power outage.

[113] Verizon Communications, Inc. Press Release, "Verizon Reports Continued Strong Results with EPS Growth of 8.6 Percent, Revenue Growth of 6.6 Percent," April 27, 2005, available at http://investor.vzmultimedia.com/news/view.aspx?NewsID=621.

[114] Matt Richtel and Simon Romero, "When Wireless Phones Failed, Callers Turned to Land Lines," *New York Times*, August 15, 2003, page 18.

78. Different demographic groups exhibit different preferences and needs, and as such, differing views with regard to the utility of wireless service as a substitute for wireline service. The Commission recently found that there is "significant variation" in the number of consumers "cutting the cord" across both metropolitan areas and across demographic groups.[115] Elderly consumers have expressed "complaints about incomprehensible service contracts, confusing bills and dead zones that are not clearly marked on coverage maps." As further explained, these complaints "are the same concerns that have been expressed for years by other consumer advocates." Only 39 percent of people 65 and older use wireless service at all, much less as a substitute, rather than complement, to wireline service.[116]

79. The carriers themselves have recognized that wireless does not constitute a substitute for traditional wireline voice service in various regulatory proceedings and in statements to the investor community. Indeed, SBC/BellSouth-owned Cingular and AT&T, in their recent merger application, made clear that they believe wireless and wireline networks are not substitutes. The filing argued that wireless service constitutes its own relevant product market for the purposes of antitrust analysis and that "[a]lthough there is some competition between

[115]*Cingular/AT&T Wireless Merger Order*, at para. 241.

[116]"Cellphone Industry Hits Snag As It Woos Untapped Market," *New York Times*, October 11, 2004, A-1.

wireless and wireline service, it is not currently sufficient to conclude that a wireless-only product market is too small for antitrust analysis . . . wireline service is sufficiently differentiated from wireless service to exclude wireline from the relevant product market."[117] According to the Association of Local Telecommunications Services, Verizon "has described the numbers of customers porting from wireline to wireless as "very, very small" and "insignificant."[118] The FCC's data corroborate Verizon's assessment of consumers' negligible interest in porting their wireline number to their wireless service. In April 2004, 49,000 of 1,381,000 or 3.5% of the numbers ported to new carriers were from wireline to wireless.[119]

80. The Commission should continue to rely on its recent findings in the *Cingular/AT&T Wireless Merger Order* that consumers use wireless and wireline telecommunications services

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[117] *AT&T Wireless Corporation and Cingular Wireless Corporation Joint Application for Transfer of Control of Licenses and Authorizations*, FCC WT Docket No. 04-70, Declaration of Richard J. Gilbert, March 18, 2004, at para. 44. Dr. Gilbert further stated: "Customer substitution from wireless to wireline would not be sufficient to make unprofitable a small but significant non-transitory price increase by a hypothetical monopoly supplier of mobile wireless voice services." *Id.*

[118] *In the Matter of Unbundled Access to Network Elements; Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, FCC WC Docket No. 04-313; CC Docket No. 01-338, Comments of ALTS, et. al., October 4, 2004, at 40, citing Press Release, Verizon, 2003 Verizon Earnings Conference Call and Investor Conference, Jan. 29, 2004, available at investor.verizon.com/news (conference presentation materials only).

[119] FCC, Wireless Telecommunications Bureau, Wireline Competition Bureau and Consumer & Governmental Affairs Bureau, *Number Portability: Implementation and Progress*, May 13, 2005, at 5.

"in a complementary manner," that the services are "distinct because of differences in functionality," and that substitution between wireline and wireless services remains "limited."[120] As the Commission noted: "It would be premature to consider the existence of a separate relevant market in which wireline and wireless services compete for mass market consumers."[121]

81. The Applicants' predictions about the *future* role of intermodal alternatives[122] is irrelevant to an assessment of the market forces that might constrain Verizon's prices *today*. The Applicants would have the Commission rely on consumer "outliers" to conclude that intermodal alternatives are economic substitutes for basic, unbundled voice grade service. Examining the consumer "outliers" is irrelevant to the mainstream consumers' clear preference to maintain a wireline link to the switched network. The Applicants and other ILECs exaggerate the relevance of intermodal services, and, furthermore, fail to demonstrate that there is sufficient cross-elasticity of demand with households' and small businesses' primary lines to

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[120] *Cingular/AT&T Wireless Merger Order*, at paras. 239, 242.

[121] *Id.*, at para. 239.

[122] *See, e.g.*, Crandall/Singer (Verizon/MCI), at para. 31, Figure 24.

justify considering intermodal services as acceptable substitutes for wireline service. In sum, the Applicants' assertions that intermodal alternatives represent true economic substitutes are unpersuasive.

IV. IMPACT OF MERGER ON RELEVANT MARKETS

Verizon's acquisition of MCI would eliminate an actual and potential competitor in the mass market.

82. The Applicants' assertion that "[b]ecause MCI's wireline mass-market operation is small and declining, the Verizon-MCI transaction would not eliminate a significant competitor for mass-market voice service,"[123] is not persuasive. The Applicants contend further that "[f]aced with this irreversible decline among mass-market customers, MCI has made significant cuts in its mass-market operations." [124] However, despite the Applicants' protests to the contrary, MCI *is* a significant competitor, both actual and potential.

83. Although the Applicants portray MCI as a business in decline, waning in all aspects, as a long distance carrier, a local competitor, and a telecommunications carrier, demand is still far higher for MCI's services than it is for most CLECs. The Applicants state that as of January 2005, MCI had 3.2 million consumer UNE-P lines in service, a 13% decline over the previous seven months, and down from 3.7 million lines at the end of June 2004.[125] However, 3.2 million

[123]Crandall/Singer (Verizon/MCI), at para. 33.

[124] Public Interest Statement, at 49.

[125]One of the Applicants' Declarants explains further: "[t]he timing of the decline corresponds to our sharp reduction in telemarketing hours, which we began to implement in July

consumers is not insignificant.

84. The Applicants also describe MCI's reduction in telemarketing, closure of call centers, reduction in employees, and closure of customer service centers.[126] MCI's decision to scale back marketing and sales is clearly linked to the declining demand that it reports.[127] If not for the *TRRO*, MCI could have continued as a competitor in the mass market. In the post-*TRRO* environment, MCI's ability to serve the mass market profitably is less certain.

85. In its most recent annual report, MCI states:

> As a participant in the competitive local telecommunications industry in the United States, we rely on the networks of established telephone companies or those of competitive local exchange carrier for some aspect of transmission. Federal law requires most of the established telephone companies to lease or "unbundle" elements of their networks and permit us to purchase the call origination and call termination services we need, thereby decreasing our operating expenses. However, as a result of recent litigation concerning portions of the FCC's Triennial Review Order that required the unbundling of switching, which is a critical component of UNE-P, the FCC has determined that beginning in 2006, certain discounts provided to us by the established telephone companies will cease. We are continuing to evaluate how the anticipated rise in UNE-P access costs will impact our ability to profitably provide Mass Markets subscription services, and the cost increase may force us to withdraw from

2004, shortly after it became clear to us that UNE-P was not likely to be available much longer." Huyard (Verizon/MCI), at para. 23.

[126] *Id.*, at paras. 14-16.

[127] *Id.*, at paras. 2-4, 19, 22.

> certain markets. As a result, new local account installations and revenue may decrease from current levels in future periods. These regulatory changes will also increase costs for our other business segments as well and could adversely affect our competitive position in these segments.[128]

If MCI cannot make a profit in the wake of the FCC's *TRRO*, one wonders which CLEC can make a go of it. If, despite the *TRRO* setback, MCI *could* continue profitably, the merger then would eliminate an important competitor to Verizon. Therefore, if the FCC decides to approve this merger, it would be conceding implicitly that mass market competition is no longer feasible.

86. MCI offers various services to residential customers (The Neighborhood, Long Distance Plans, High Speed Internet and International Plans)[129] and to business customers (MCI Advantage, MCI Business Complete, Conferencing Solutions, and Security Solutions).[130] MCI states that:

> Today, MCI's focus is clear - to use our global network and expertise to deliver innovative products that provide simplicity and unsurpassed value to our customers. With millions of business and residential customers, MCI® is a leader in serving global businesses, government offices, and U.S. residential customers.

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[128]MCI, Inc. Form 10-K, Annual Report for the fiscal year ended December 31, 2004, at 17.

[129]http://consumer.mci.com/index.jsp. See Exhibit SMB-8.

[130]http://business.mci.com/index.htm. See Exhibit SMB-9.

> MCI delivers a comprehensive portfolio of local-to-global business data, Internet and voice services to a "Who's Who" list of the Fortune 1000. MCI is an established leader in IP network technology and Virtual Private Networking (VPN), delivering VPNs based on private data networks as well as our global Internet backbone, which spans six continents. Our portfolio includes SONET private line, frame relay, ATM and a full range of dedicated, dial and value-added Internet services.
>
> MCI today owns and operates some of the world's most complex and sophisticated custom networks, delivering value for a wide variety of customers and more than 75 U.S. federal government agencies. We also are a premier provider of audio, video, and Net conferencing services that enable customers to meet and collaborate remotely to effectively conduct business anywhere, anytime.
>
> MCI is the United States' second largest long distance company for residential customers. In April 2002, MCI launched The Neighborhood built by MCI, the industry's first truly any-distance, all-inclusive offering combining local and nationwide long distance calling from home to consumers for one low monthly price. The Neighborhood continues MCI's pioneering tradition, which has been based on opening up monopoly markets and providing innovative services to consumers nationwide.[131]

87. In its most recent report to investors, Michael D. Capellas, MCI's president and chief executive officer. stated: "We achieved solid performance in the first quarter," and that "Focusing on our IP leadership strategy, you will see us accelerate our push into network security, managed network services and hosting, better positioning us in the industry's highest growth segments."[132] If, absent the merger, MCI would pack its bags and exit the local market,

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[131]http://global.mci.com/about/company/

[132]"MCI Announces First Quarter 2005 Results," http://global.mci.com/about/investor_relations/news

regulators should take notice. If neither AT&T nor MCI can compete with the Bells, who can? If MCI *could* compete, then Verizon's acquisition of this experiencd CLEC represents the loss of an actual and potential competitor. If MCI *could not* compete, then federal and state regulators should re-assess carefully their rationales for granting Verizon and other incumbent carriers regulatory freedom.

V. OTHER POTENTIAL HARMS TO CONSUMERS

Verizon's pursuit of operating efficiencies and enhanced revenues exposes consumers to service quality deterioration and aggressive sales practices.

88. The Applicants anticipate a net present value of $7 billion in synergies, with expense savings accounting for the majority of the efficiencies. The Applicants anticipate reducing employees by 7,000.[133] The Proxy Statement describes the sources of the synergies as follows:

> Verizon believes that the potential annual pre-tax benefits and revenue enhancements following the closing of the merger will reach $500 million in year one, $750 million in year two, and will ramp up to $1 billion in year three and beyond. Verizon believes that these financial benefits and revenue enhancements can be achieved based upon its track record of combining the businesses of NYNEX Corporation and Bell Atlantic Corporation in 1997 and the businesses of GTE Corporation and Bell Atlantic Corporation in 2000. The financial benefits are expected to come from, among other things:
>
> • eliminating duplicative staff and information and operation systems and to a lesser extent overlapping network facilities;
> • reducing procurement costs;
> • rationalizing the companies' real estate assets;
> • using the existing networks more efficiently;
> • reducing line support functions;
> • reducing general and administrative expenses;
> • improving information systems;
> • optimizing traffic flow;
> • eliminating Verizon capital expenditures for new long-haul network capability; and
> • offering wireless capabilities to MCI's customers.[134]

[133] Investor Conference Call, February 14, 2005, page 28.

[134] Proxy Statement, at 44-45.

89. The Proxy Statement also identifies various opportunities for post-merger revenue enhancement:

> The merger should help maintain or increase MCI's revenue and provide an opportunity for sales of additional advanced services to Verizon's customer base. The merger enhances the ability of Verizon, following the closing of the merger, to offer services to large, medium and small businesses. Verizon believes that there will be opportunities for Verizon in the market for Internet protocol virtual private networks, sometimes referred to as IP VPN, and opportunities to provide value-added services, such as security and storage. Following the closing of the merger, Verizon will also have enhanced capabilities to offer MCI's existing and planned hosting services through applications delivery to large, medium and small businesses. The product portfolio available to all business customers will be broadened across every dimension—premise, access, transport, applications and managed services—because of MCI's IP backbone and Verizon's ability following the closing of the merger to bundle more solutions. Verizon also expects that its industry-leading wireless capabilities will be offered to the existing customer bases of Verizon and MCI and new prospective customers.[135]

The "opportunity for sales of additional advanced services to Verizon's customer base" could encompass sales of additional services to Verizon's mass market customers. Verizon's "ability . . . to bundle more solutions" underscores the need to implement safeguards to detect and prevent cross-subsidization of competitive ventures with revenues from non-competitive services.

[135] *Id.*

The loss of MCI as a CLEC stakeholder in local competition proceedings signals bleak prospects for CLECs' challenges to incumbent carriers.

90. MCI's historical identity is one of a maverick competing head-on with dominant carriers, first with AT&T in the long distance market and subsequently with ILECs in local markets. MCI has prided itself on fighting for competitive markets:

> MCI promotes robust competition, innovation, and connectivity throughout the world. At the local and state level, in Washington, D.C., and internationally, MCI supports the development and implementation of public policies that promote user choice and economic growth. *MCI invented competition in communications, and it continues to fight today to ensure that free and fair markets prevail over monopoly.*
>
> MCI's Law and Public Policy (LPP) organization works with regulators across the U.S. and around the world to ensure that public policies support a vigorously competitive communications market. These activities include direct engagement with the Federal Communications Commission, the U.S. Congress, state utility commissions and legislatures, and the European Commission. LPP's mandate is to protect existing laws and regulations that promote competition while preventing adoption of new, anticompetitive rules and laws.[136]

91. The loss of MCI as a regulatory activist is a harbinger of the re-monopolization of telecommunications markets. As MCI describes its avid support of competition:

> Throughout its rich history, MCI has supported competition in the long distance and local markets as well as the Internet. As the company that was instrumental in the breakup of the Bell System 20 years ago, MCI's position is that vibrant competition leads to lower prices, better services and innovative new products

[136]http://global.mci.com/about/publicpolicy/ (emphasis added).

for consumers and businesses.[137]

92. MCI's change in identity from CLEC to ILEC would create a significant regulatory vacuum and diminish the breadth and depth of state and federal proceedings. MCI has been an active, vocal participant, shaping state and federal telecommunications policy. As an advisor to numerous state PUCs, a witness in many regulatory proceedings, and a participant in industry fora, Ms. Baldwin has had the opportunity to observe, first-hand, MCI's important role in regulatory proceedings. MCI's departure from its role as regulatory activist represents a genuine loss to public policy making.

93. The transformation of this regulatory activist into an incumbent's partner will irrevocably alter state and federal investigations of telecommunications policy, ultimately harming consumers. The "if-you-can't-beat-them-join-them" mentality that has overtaken the telecommunications industry reduces consumers' prospects for meaningful competition and underscores the necessity of federal and state regulators to exercise oversight of the local mass market. With each successive phase of market concentration, the need for regulatory oversight of the re-monopolized telecommunications market becomes more critical.[138]

[137] http://global.mci.com/about/publicpolicy/localcompetition/

[138] *SBC/Ameritech Merger Order*, at paras. 116-117, 183.

94. Post-merger, MCI's incentives and obligations to shareholders would change dramatically. MCI's metamorphosis from a consumer of Bell services to a supplier of Bell services would strengthen considerably Verizon's regulatory position, to the harm of consumers. Furthermore, until the FCC resolves critical industry issues such as unifying the intercarrier compensation regime, addressing BOCs' exorbitant special access profits, and ensuring appropriate interaffiliate transactions, it would be unwise to allow the market to undergo further concentration, absent commitments aimed at curtailing abusive behavior by the merged entity. We urge the FCC to impose conditions to detect and to prevent (1) anti-competitive behavior and (2) extracting supra-competitive profits from consumers.

If the FCC approves the proposed transaction, it should increase the X factor in its price cap regulation or reimpose rate of return regulation.

95. Competitive pressures are insufficient to cause Verizon to flow through synergies to consumers of basic services and other monopoly services (such as special access) through rate reductions, service innovation, or enhanced service quality. The FCC should recognize this market failure in its decisions in the Special Access and the Intercarrier Compensation proceedings in order to prevent Verizon from earning supracompetitive profits from its non-competitive services.

96. The FCC released its *Special Access NPRM* (Order and Notice of Proposed Rulemaking) in WC Docket No. 05-25 on January 31, 2005,[139] which addresses issues directly related to the proposed merger between Verizon and MCI. The Special Access NPRM commences a "broad examination of the regulatory framework to apply to price cap local exchange carriers' (LECs) interstate special access services"[140] given the expiration of the CALLS plan on June 30, 2005. The FCC seeks comments regarding both traditional price cap issues and its current pricing flexibility rules for special access services.[141] The FCC has recognized that special access is a key input for competitive LECs, CMRS providers, business customers, and interexchange carriers (IXCs). Special access revenues have grown from 12.8 percent of BOC interstate operating revenues in 1991 to 45.4 percent of interstate operating revenues in 2003.[142] Among the issues that the FCC is considering is the need for and appropriate magnitude of a productivity factor[143] and the merits of earnings sharing.[144]

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[139] *In the Matter of Special Access Rates for Price Cap Local Exchange Carriers; AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates for Interstate Special Access Services*, FCC WC Docket No. 05-25; RM-10593, *Order and Notice of Proposed Rulemaking*, Released January 31, 2005 ("Special Access NPRM").

[140] *Id.*, at para. 1.

[141] *Id.*, at paras. 1 and 4.

[142] *Id.*, at para. 3.

[143] *Id.,* at paras. 35-36.

[144] *Id.*, at para. 44.

97. The *Special Access NPRM* also addresses an AT&T petition for rulemaking asking the FCC to revoke pricing flexibility and reexamine the CALLS Plan claiming that predicted competitive entry in the special access market has not materialized and that BOC special access rates have increased or remained flat in every market where pricing flexibility has been granted.[145] Indeed, the FCC notes in the *Special Access NPRM* that the BOCs have "earned special access accounting rates of return substantially in excess of the prescribed 11.25 rate of return that applies to rate of return LECs."[146] As the prospect of competition shrinks, and as ILECs' re-monopolize telecommunications markets, rate of return regulation may be the logical regulatory response. The combination of the BOCs' supra-competitive special access profits and concerns about ILECs' interaffiliate transactions suggests that federal and state regulators need to examine closely ILECs' costs and revenues. Rate of return regulation would address ILECs' concern about earning adequate return on their investment and permit the establishment of rates for UNE-P that provide accurate pricing signals, *i.e.,* total element long run incremental cost. If the FCC approves the proposed merger between Verizon and MCI, the FCC should indicate its intentions:

- To require Verizon to share the substantial synergies that the Applicants anticipate in the Special Access rulemaking with special access customers

[145] *Id.*, at para. 19.

[146] *Id.*, at para. 35.

through measures such as the productivity factor and an earnings sharing mechanism.

- In assessing Bell operating companies' pricing flexibility, to consider the impact of the merger on the competitiveness of relevant markets.

In assessing the potential benefits and harms from the proposed transaction, the FCC should examine Verizon's home-region behavior.

98. The proposed merger exposes consumers to two possible ill effects related to the Applicants' achievement of the predicted merger synergies:

- First, as is discussed below, the Applicants' efforts to reduce operating expenses could jeopardize service quality.
- Second, the Applicants' efforts to enhance revenues could lead to aggressive sales practices.

In their zeal to achieve anticipated merger synergies, the Applicants would likely seek ways to reduce operating expenses.

99. Federal and state regulators should monitor carefully the quality of basic local service to ensure that those consumers most vulnerable to cost-cutting measures (*i.e.*, those in rural areas and those that do not purchase bundled services) do not receive inferior service quality as a result of the Applicants' simultaneous pursuit of revenues from competitive services and

implementation of operating efficiency measures. Similarly, regulators should monitor the Applicants' sales practices for its discretionary and bundled services to ensure that consumers are sufficiently well-informed to be able to make efficient purchasing decisions. Finally, regulators should heed comments from the remaining CLECs so that they can prevent Verizon from squeezing out those competitors that are still attempting to compete in the many markets that the merged entity would dominate.

VI. CONDITIONS

If the Commission approves the proposed merger, it should do so contingent upon enforceable conditions that mitigate risks for consumers.

100. The prospects for competitive local exchange service options for residential and small business consumers are even bleaker than they were when Bell Atlantic and GTE sought the FCC's approval of their merger, and the potential harms to consumers are even greater than they were then. At the time, Ms. Baldwin observed:

> Residential consumers have reason to fear that "competition delay" will be "competition denied." As things stand, consumers and small businesses have been and are likely to remain the last direct beneficiaries of competition. While competition is delayed, the ILECs are likely to be driving for increased deregulation, pricing flexibility, and other regulatory concessions that *increase* the ILECs' ability to leverage their market power in the residential and small business end of the local exchange market. The result of this strategy is to further retard the development of competition through the local exchange and exchange services market, and in the emerging market for bundled services. Under such conditions, residential and small business customers will lose twice: first, by being made to directly and indirectly finance the competitive ventures of their ILEC and, second, by having competition further delayed (or perhaps never realized) with respect to the services these customers purchase from the ILEC. This outcome is definitely *not* in the public interest, and can best be avoided by denying the proposed Bell Atlantic/GTE merger.[147]

[147] *GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control*, Federal Communications Commission CC Docket No. 98-184, Affidavit of Susan M. Baldwin and Helen E. Golding on behalf of a coalition of consumer advocates from Delaware, Hawaii, Maine, Maryland, Missouri, Ohio, Oregon, West Virginia, and Michigan, filed on December 18, 1998, at para. 9 (emphasis in original).

101. If the FCC approves the proposed Verizon/MCI merger, it should only do so contingent upon explicit conditions that would (1) mitigate and/or prevent harms that the merger would likely cause and (2) enhance and/or increase the likelihood of merger benefits. Furthermore, these conditions should be designed so that:

- The FCC, state public utility commissions, competitors, and consumers can readily monitor the Applicants' compliance and the FCC can enforce them (*i.e.*, the financial incentives for compliance are sufficient, and the Applicants' compliance can be assessed).
- The conditions do not sunset, but rather only terminate based upon an affirmative finding by the FCC that they are longer necessary. The Applicants should bear the burden of proving that the conditions are not longer necessary.

102. In this section of our Declaration, we (1) identify potential harms of the merger and describes possible conditions to mitigate and/or prevent consumer harm and (2) describe conditions that would increase the potential for consumers to benefit from the proposed merger.

Verizon's pursuit of new revenues creates risks for consumers.

103. As stated previously, the Applicants anticipate that one component of the merger

synergies would flow from sales to new customers.[148] The pursuit of enhanced revenues from bundled offerings such as "Freedom" packages creates incentives for (1) overly aggressive sales practices, (2) cross-subsidization of competitive services with revenues from monopoly services; and (3) anti-competitive tying arrangements. Therefore, *the FCC should require an independent audit of Verizon's sales practices, an independent audit of Verizon's interaffiliate transactions, and comprehensive customer education.*

Verizon's pursuit of cost-cutting measures could jeopardize service quality.

104. The Applicants' efforts to lower operating expenses could jeopardize the quality of basic services offered to mass market consumers, for which there is no effective competition. Service quality data that Verizon submits that is reported based on district-averages masks inferior performance in "pocket" problem areas (*e.g.*, rural exchanges). *The FCC should coordinate with state public utility commissions to impose sanctions if service quality for non-competitive Verizon-supplied telecommunications services declines below benchmark levels (1) as measured at geographically disaggregated levels and (2) with comparative statistics for consumers that purchase only basic voice grade service and consumers that purchase bundled "Verizon Freedom" packages.* These comparative statistics are essential to detect any discrimination against consumers who do not choose to purchase bundles.

[148] Proxy Statement, at 44.

The proposed merger would eliminate a significant, nationwide supplier of telecommunications services, thereby diminishing competitive options; Verizon should commit to providing "naked DSL" to promote consumer choice.

105. The Applicants should commit to deploying "naked DSL" to increase the likelihood that consumers benefit from competitive choices.[149] In apparent response to consumer groups and regulators, on April 18th, 2005, Verizon executive vice president for public affairs and policy, Tom Tauke, announced plans to offer "naked DSL" services starting April 25th. However, several caveats apparently limit this offer. First, availability will be limited to thirteen Northeast and Mid-Atlantic states and the District of Columbia (those states previously served by Bell Atlantic and NYNEX). Second, only customers that presently subscribe to *both* telephone and high-speed Internet access from Verizon are eligible for this offer.[150] Finally,

[149]The FCC recently found that states could not require incumbent LECs to provide DSL service to customers over the same UNE loop used by a competitive LEC to provide voice service to an end user. *Bell South Telecommunications, Inc. Request for Declaratory Ruling that State Commissions May Not Regulate Broadband Internet Access Services by Requiring BellSouth to Provide Wholesale or Retail Broadband Services to Competitive LEC UNE Voice Customers*, FCC WC Docket No. 03-251, Rel. March 25, 2005. The order specifically addressed states' authority to establish unbundling requirements inconsistent with FCC unbundling rules. However, the FCC did not issue any findings with respect to concerns raised by competitors that such tying policies by incumbents are anticompetitive and, in fact, issued a Notice of Inquiry regarding the tying issue. *Id.,* at para. 31. "We seek comment on whether such bundling behavior is harmful to competition, particularly unaffiliated providers of new services, such as voice over Internet protocol (VoIP), and if so, how this is related to several previous decisions or ongoing proceedings relating to dominance and classification issues." *Id.*, at para. 37. As we discuss earlier in our Declaration, the FCC's analysis of tying is essential to prevent the Bells' anticompetitive offering of telecommunications bundles.

[150]"Verizon Offering 'Naked' DSL in Northeast," *Wall Street Journal Online*, April 18, 2005.

press reports indicate that customers will not simply be able to drop telephone service, but in fact will have to port their number to another phone service provider.[151] Mr. Tauke indicated that stand-alone DSL will eventually be rolled out to all Verizon customers.[152]

106. The Commission should ensure that Verizon follows through on these promises to offer true stand-alone DSL to all prospective customers by asking Verizon to make firm commitments with respect to its DSL offerings. The recent announcement may be calculated to simply head off legislation to require stand-alone DSL. Mr. Tauke's announcement came on the day before the Senate Judiciary Committee, Subcommittee on Antitrust, Competition Policy and Consumer Rights" held hearings entitled: "SBC/ATT and Verizon/MCI Mergers: Remaking the Telecommunications Industry, Part II–Another View."

107. The chief executive officer of Vonage Holdings Corp., Jeffrey Citron, recently testified before the U.S. Senate Antitrust Subcommittee of the Judiciary Committee:

> Consumers should be able to choose which services they want to purchase and which ones they do not want to buy. The widespread practice of bundling or "tying" a broadband Internet access service to a basic voice offering must come to an end, especially in light of the mergers. Today, if a customer of SBC or

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[151] "Verizon Exec Sees Telecom Rewrite Near Ready by End '05," SmartMoney.com, April 19, 2005.

[152] "Verizon Offering 'Naked' DSL in Northeast," *Wall Street Journal Online*, April 18, 2005.

> Verizon would like to purchase a high-speed Internet connection, they cannot do so without also buying a basic telephone line. The net effect is to make services like those offered by Vonage economically unattractive because there is no cost savings to the retail consumer. The practice slows broadband adoption and is anticompetitive. Again, the proposed mergers remove two significant sources of competitive broadband access for consumers. Therefore, Congress should ensure that the merged companies offer standalone broadband Internet access services so that consumers have a real choice of voice providers.[153]

108. Consumer advocates have also denounced the Bell's tying tactics:

> Making matters worse, SBC and Verizon (as well as BellSouth) also use an anti-competitive bundling tactic to ensure that VoIP can never effectively compete with their basic local voice services. Neither Verizon nor SBC will sell a consumer DSL on a stand-alone basis, what is known as "naked" DSL. Both force consumers to buy their voice service in order to get a DSL line. So a consumer who wants to buy VoIP from a competitor has to pay for local service twice. . . . Both telephone companies and cable operators force consumers to buy bundles of services – to pay twice – if they want to purchase VoIP service from a competitor.[154]

Concerted out-of-region entry could promote local competition, but meanwhile Verizon should relinquish competitive classification of basic local exchange service until effective competition materializes.

109. BOCs' attempts to compete out-of-region have been lackluster.[155] The Applicants

[153]Written Statement of Jeffrey Citron, CEO, Vonage Holdings Corp., before the U.S. Senate Antitrust Subcommittee of the Judiciary Committee, April 19, 2005.

[154]Statement of Gene Kimmelman, Senior Director for Public Policy and Advocacy Consumers Union On Behalf of Consumers Union and The Consumer Federation of America On SBC-AT&T and Verizon-MCI Mergers Remaking the Telecommunications Industry, Part II Senate Judiciary Committee, April 19, 2005.

[155]In its filing with the FCC, Sprint announced its intention to spin off its Local Division. *Applications of Nextel Communications, Inc., and Sprint Corporation, for Consent to the*

should commit to out-of-region entry to offer basic local exchange service to residential and small business consumers in more than a "bare bones" fashion or alternatively state that such out-of-region entry is not profitable and that they have no intention of pursuing mass market "unbundled" customers beyond their home turf.

110. MCI describes a market that has become unattractive to serve:

> Once it became likely that UNE-P would no longer be available, the limited UNE-L buildout strategy no longer made sense. This is true even in those wire centers where MCI has a relatively high concentration of existing UNE-P customers, because the potential profits from any UNE-L plans or proposals reviewed by MCI were subject to great uncertainty and depended upon certain assumptions, including reductions in the nonrecurring charge for hot cuts, that were not realized. Therefore, MCI decided not to pursue this UNE-L strategy any more.[156]

If the CLEC business is not profitable for MCI, it is likely that being a CLEC out-of-region would not unattractive to Verizon. MCI explains to its shareholders that "there have been regulatory changes making it more difficult for competitive local exchange carriers like us to provide traditional telephone service, particularly to consumer customers, in competition with

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Transfer of Control of Entities Holding Commission Licenses and Authorizations Pursuant to Sections 214and 310(d) of the Communications Act, FCC WT Docket No. 05-63, Public Interest Statement, February 8, 2005, at 1-2. Meanwhile Qwest's chief financial officer, Oren Shaffer, has predicted that the pending SBC/AT&T and Verizon/MCI mergers will result in customer-account divestitures that Qwest may take advantage of as a buyer. *TR Daily*, May 6, 2005. Another way to increase BOCs' out-of-region entry would be for Qwest to purchase Sprint's Local Division.

[156]Huyard (Verizon/MCI), at para. 15.

the RBOCs and other incumbent local exchange carriers."[157]

111. Therefore, regulators should assume that until actual head-to-head competition exists, local mass markets are non-competitive. Also, the absence of out-of-region BOC competition is evidence of the fallacy of the FCC's mis-placed optimism in the *TRRO* about opportunities for local competition. Verizon should commit to compete out-of-region for residential and small business customers with fellow BOCs or should concede that such competition is not financially sustainable. Furthermore, until BOCs, such as Verizon (a ninety-billion dollar telecommunications carrier with unique capabilities) are able to enter other local mass markets profitably,[158] the FCC and state PUCs should assume that these markets are non-competitive and should regulate them accordingly. Verizon should relinquish any competitive classification that it has acquired for providing basic voice-grade service to the mass market.

112. Furthermore, the pending mergers heighten concerns about the absence of sibling rivalry

[157]MCI, Inc. Form 10-K, Annual Report for the fiscal year ended December 31, 2004, at 3-4.

[158]The FCC previous determined that "as out-of-region competitors we consider Bell Atlantic and GTE to be unusually qualified." In re Application of GTE Corporation, Transferor and Bell Atlantic Corporation, Transferee For Consent to Transfer Control, Memorandum Opinion and Order, CC Docket No. 98-184, released June 16, 2000, at para. 221. Despite this vote of confidence by the FCC, mass market consumers have yet to benefit from Verizon's "unusually qualified" ability to compete beyond their home turf.

among the Bells and the growing potential for tacit collusion. As one economist observed, "[t]he variety of collusive pricing arrangements in industry is limited only by the bounds of human ingenuity."[159] The pending mergers facilitate collusion because they shrink the number of "players" in the industry, which has anti-competitive consequences. The following excerpts from an economics textbook explains the beneficial impact of *increasing* the number of players:

> First, as the number of sellers increases and the share of industry output supplied by a representative firm decreases, individual producers are increasingly apt to ignore the effect of their price and output decisions on rival actions and the overal level of prices.
>
> . . .
>
> Second, as the number of sellers increases, so also does the probability that at least one will be a maverick, pursuing an independent, aggressive pricing policy.
>
> . . .
>
> Finally, different sellers are likely to have at least slightly divergent notions about the most advantageous price. ... The coordination problem clearly increases with the number of firms.[160]

If the FCC approves Verizon's acquisition of MCI, the FCC and state public utility commissions will need to devote substantially greater resources for regulatory scrutiny and oversight.

[159] F. M. Scherer, *Industrial Market Structure and Economic Performance*, Rand McNally & Company, (1970), at 158.

[160] *Id.*, at 183.

The FCC should impose conditions to enhance and/or increase the likelihood of benefits for consumers; absent regulatory requirements, consumers of non-competitive services will not benefit from the anticipated merger synergies.

113. In a competitive market place, suppliers would lower prices, increase service quality and/or offer new, innovative products as a result of generating merger synergies. However, in many of the telecommunications markets that the Applicants serve, there is inadequate competitive pressure to ensure that consumers of non-competitive services would benefit from the merger synergies. The Applicants should flow through merger synergies by reducing rates for non-competitive interstate and intrastate services and agree to provide broadband capability at POTS prices to residential mass market customers. The FCC should establish an adequate X factor or reimpose rate of return regulation and restore earnings sharing in its Special Access proceeding. In its overhaul of the intercarrier compensation regime, the FCC should be aware of the substantial merger synergies that Verizon will enjoy.

The Commission should ensure that MCI's current customers are not harmed.

114. MCI's local and long distance customers should not default to the incumbent local exchange carrier in Verizon's "home" region. Instead, customers should be afforded comprehensive notification, subject to review by consumer advocates and public utility commissions, so that they can make informed, economically efficient decisions and ample opportunity to select a local and/or long distance carrier other than Verizon. The treatment of

these "legacy" customers merits scrutiny. The imminent disappearance of UNE-P coupled with the pending mergers could lead to significant consumer disruption and confusion. As one FCC Commissioner stated:

> Moreover, I have serious concerns that consumers may experience unnecessary service disruptions as their providers of choice are forced to exit the marketplace or as carriers rush to convert to new systems. To safeguard against this upheaval, it will be imperative that our State commission colleagues monitor the re-absorption, like the proverbial rat in a python, of millions of consumers who have chosen competitive alternatives. Our failure to address this possibility more comprehensively shows unnecessary disregard for consumers who have signed up with competitors -- for such disruptions would come through no fault of their own.[161]

Competitive reporting and information are more essential than ever.

115. Timely comprehensive assessment of market structures is essential, particularly, during the ongoing retreat from competition. This assessment is critical to inform the FCC and state public utility commissions about market imperfections, and which customers are most vulnerable to Bells' exercise of market power. Data about consumer demand and about the quality and prices of services supplied would contribute to informed public policy making. In order to monitor the impact of the *TRRO* and any merger approvals on local, DSL, long distance, and integrated telecommunications markets, ILECs should submit quarterly reports

[161] *TRRO,* Commission Adelstein, Dissenting Statement.

that provide, on a geographically disaggregated basis (*i.e.*. wire center basis) quantities of total retail lines; UNE-P lines; UNE-L lines; resale lines; demand for each of the "Freedom" packages, and price changes. Data such as these will enable informed oversight so federal and state regulators can identify and address market imperfections.[162]

[162]The New Jersey Board has scheduled a series of stakeholder meetings to develop of comprehensive list of services and unbundled network elements to assist the Board in monitoring the extent of competition in the telecommunications market. Letter from Anthony Centrella, Director, Division of Telecommunications, April 26, 2005, Re: UNE/Competitive Reporting Requirements; The Michigan Public Service Commission ordered SBC and CLECs to file quarterly reports detailing competitive conditions on an Access Area basis finding that "frequent and timely monitoring of the state of competition" was essential for assessing the merits of continuing the competitive classification past the one-year competitive classification trial period that it authorized. *In the matter of SBC Michigan's request for classification of business local exchange service as competitive pursuant to Section 208 of the Michigan Telecommunications Act; In the Matter of SBC Michigan's request for classification of residential local exchange service as competitive pursuant to Section 208 of the Michigan Telecommunications Act*, Michigan Public Service Commission Case Nos. U-14323; U-14324, *Opinion and Order*, January 6, 2005, at 15.

VII. CONCLUSION

116. For the all of the foregoing reasons, the FCC should deny Verizon's and MCI's request for approval to transfer control of FCC authorizations held by MCI to Verizon.

117. If, nonetheless, the FCC decides to approve the proposed transaction, it should only do so contingent upon enforceable conditions that protect residential and small business consumers from harm and that increase the likelihood of consumer benefits from the transaction.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on May 9, 2005

Susan M. Baldwin

Susan M. Baldwin

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on May 9, 2005

Sarah M. Bosley

Sarah M. Bosley

Attachment A

Statement of Qualifications of Susan M. Baldwin

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Susan M. Baldwin is presently providing consulting services to public sector agencies as a consultant, in partnership with Sarah M. Bosley. Ms. Baldwin has been actively involved in public policy for twenty-seven years, twenty-one of which have been in telecommunications policy and regulation. Ms. Baldwin is presently a consultant. Ms. Baldwin received her Master of Economics from Boston University, her Master of Public Policy from Harvard University's John F. Kennedy School of Government, and her Bachelor of Arts degree in Mathematics and English from Wellesley College.

Ms. Baldwin has extensive experience both in government and in the private sector. Since 2001, Ms. Baldwin has been advising and testifying on behalf of public sector agencies as an independent consultant. In that capacity, she provided comprehensive technical assistance to the Massachusetts Department of Telecommunications and Energy (DTE), serving as a direct advisor in a comprehensive investigation of recurring and nonrecurring costs for unbundled network elements (UNEs). She sponsored testimony in a numbering resource and virtual "NXX" proceeding on behalf of the Iowa Office of Consumer Advocate, on UNE cost studies on behalf of the Illinois Citizens Utility Board, on Qwest's petition to reclassify certain services as competitive on behalf of the Attorney General of the State of Washington, on Verizon's requests to raise basic local exchange rates and to reclassify small business local exchange service as competitive, on behalf of the New Jersey Division of the Ratepayer Advocate, and on CenturyTel's request to raise rates on behalf of the Arkansas Attorney General's Office. She also provided advisory services to the United States General Accounting Office in its preparation of a report on the Internet backbone market.

Most recently, Ms. Baldwin has been working on behalf of consumer advocates in the state *Triennial Review Order* ("TRO") proceedings. She prepared comprehensive testimony analyzing mass market impairment on behalf of the New Jersey Division of the Ratepayer Advocate, the Arkansas Office of the Attorney General, and the Utah Committee of Consumer Services. Testimony was not filed in Arkansas or Utah because of the DC Circuit Court ruling in USTA v. FCC, which caused these states to postpone their investigations of impairment. Ms. Baldwin also prepared detailed affidavits on behalf of the New Jersey Division of the Ratepayer Advocate and on behalf of the Utah Committee of Consumer Services, which were submitted in the Federal Communication Commission's rulemaking proceeding on network unbundling.

Ms. Baldwin has testified before the Arkansas Public Service Commission, California Public Utilities Commission, Colorado Public Utilities Commission, Connecticut Department of Public Utility Control, Idaho Public Utilities Commission, Illinois Commerce Commission, Indiana Utility Regulatory Commission, Iowa Utilities Board, Massachusetts Department of Telecommunications and Energy, Nevada Public Service Commission, New Jersey Board of Regulatory Commissioners, Public Utilities Commission of Ohio, Rhode Island Public Utilities

Commission, Tennessee Public Service Commission, Vermont Public Service Board, and Washington Utilities and Transportation Commission.

She has also participated in projects in Delaware, the District of Columbia, Hawaii, Illinois, New York, Pennsylvania, and Canada on behalf of consumer advocates, public utility commissions, and competitive local exchange carriers. Ms. Baldwin has served in a direct advisory capacity to public utility commissions in the District of Columbia, Massachusetts, New Mexico, Utah and Vermont. Ms. Baldwin has also testified on behalf of public utility commission staff in Idaho and Rhode Island.

Ms. Baldwin worked with Economics and Technology, Inc. for twelve years, most recently as a Senior Vice President. Among her numerous projects were the responsibility of advising the Vermont Public Service Board in matters relating to a comprehensive investigation of NYNEX's revenue requirement and proposed alternative regulation plan. She participated in all phases of the docket, encompassing review of testimony, issuance of discovery, cross-examination of witnesses, drafting memoranda and decisions, and reviewing compliance filings. Another year-long project managed by Ms. Baldwin was the in-depth analysis and evaluation of the cost proxy models submitted in the FCC's universal service proceeding. Also, on behalf of the staff of the Idaho Public Utilities Commission, Ms. Baldwin testified on the proper allocation of US West's costs between regulated and non-regulated services. On behalf of AT&T Communications of California, Inc. and MCI Telecommunications Corporation, Ms. Baldwin comprehensively analyzed the non-recurring cost studies submitted by California's incumbent local exchange carriers.

Ms. Baldwin served as a direct advisor to the Massachusetts Department of Telecommunications and Energy (DTE) between August 2001 and July 2003, in Massachusetts DTE Docket 01-20, an investigation of Verizon's total element long run incremental cost (TELRIC) studies for recurring and nonrecurring unbundled network elements (UNEs). She assisted with all aspects of this comprehensive case in Massachusetts. Ms. Baldwin analyzed recurring and nonrecurring costs studies; ran cost models; reviewed parties' testimony, cross-examined witnesses, trained staff, met with the members of the Commission, assisted with substantial portions of the major orders issued by the DTE; and also assisted with the compliance phase of the proceeding.

Ms. Baldwin has participated in numerous investigations of the impact of proposed mergers of telecommunications carriers on consumers. Ms. Baldwin sponsored testimony on behalf of the Nevada Bureau of Consumer Protection on the proposed merger of Sprint and WorldCom; sponsored testimony on behalf of the Office of Ratepayer Advocates (ORA) of the California Public Utilities Commission and also on behalf of the Washington Office of Attorney General in their respective investigations of the proposed merger of Bell Atlantic Corporation and GTE Corporation; co-managed assistance to the Hawaii Division of Consumer Advocacy in the analysis of the proposed BA/GTE merger; sponsored testimony on behalf of the Ohio Consumers' Counsel and the Indiana Office of Utility Consumer Counselor on the SBC/Ameritech merger; co-sponsored testimony on behalf of the Connecticut Office of

Consumer Counsel on the impact of SBC's acquisition of SNET on consumers; co-authored affidavits submitted to the FCC on behalf of consumer coalitions on the SBC/Ameritech and BA/GTE mergers; and co-managed a project to assist the ORA analyze the California Public Utilities Commission's investigation of the merger of Pacific Telesis Group and SBC Communications.

Ms. Baldwin has contributed to the development of state and federal policy on numbering matters. On behalf of the Ad Hoc Telecommunications Users Committee, Ms. Baldwin participated in the Numbering Resource Optimization Working Group (NRO-WG), and in that capacity, served as a co-chair of the Analysis Task Force of the NRO-WG. She has also provided technical assistance to consumer advocates in the District of Columbia, Illinois, Iowa, Massachusetts, and Pennsylvania on area code relief and numbering optimization measures. Ms. Baldwin also co-authored comments on behalf of the National Association of State Utility Consumer Advocates in the FCC's proceeding on numbering resource optimization.

During her first years at ETI, Ms. Baldwin was the Director of Publications and Tariff Research, and, in that capacity, she trained and supervised staff in the analysis of telecommunications rate structures, services, and regulation.

Ms. Baldwin served four years as the Director of the Telecommunications Division for the Massachusetts Department of Public Utilities (the predecessor to the DTE), where she directed a staff of nine, and acted in a direct advisory capacity to the DPU Commissioners. (The Massachusetts DTE maintains a non-separated staff, which directly interacts with the Commission, rather than taking an advocacy role of its own in proceedings). Ms. Baldwin advised and drafted decisions for the Commission in numerous DPU proceedings including investigations of a comprehensive restructuring of New England Telephone Company's rates, an audit of NET's transactions with its NYNEX affiliates, collocation, ISDN, Caller ID, 900-type services, AT&T's request for a change in regulatory treatment, pay telephone and alternative operator services, increased accessibility to the network by disabled persons, conduit rates charged by NET to cable companies, and quality of service. Under her supervision, staff analyzed all telecommunications matters relating to the regulation of the then $1.7-billion telecommunications industry in Massachusetts, including the review of all telecommunications tariff filings; petitions; cost, revenue, and quality of service data; and certification applications. As a member of the Telecommunications Staff Committees of the New England Conference of Public Utility Commissioners (NECPUC) and the National Association of Regulatory Utility Commissioners (NARUC), she contributed to the development of telecommunications policy on state, regional, and national levels.

Ms. Baldwin has worked with local, state, and federal officials on energy, environmental, budget, welfare, and telecommunications issues. As a policy analyst for the New England Regional Commission (NERCOM), Massachusetts Department of Public Welfare (DPW), and Massachusetts Office of Energy Resources (MOER), she acquired extensive experience working with governors' offices, state legislatures, congressional offices, and industry and advocacy groups. As an energy analyst for NERCOM, Ms. Baldwin coordinated New England's first regional seminar on low-level radioactive waste, analyzed federal and state energy policies, and wrote several reports on regional energy issues. As a budget analyst for the DPW, she forecast expenditures, developed low-income policy, negotiated contracts, prepared and defended budget requests, and monitored expenditures of over $100 million. While working with the MOER, Ms. Baldwin conducted a statewide survey of the solar industry and analyzed federal solar legislation.

Ms. Baldwin received Boston University's Dean's Fellowship. While attending the Kennedy School of Government, Ms. Baldwin served as a teaching assistant for a graduate course in microeconomics and as a research assistant for the school's Energy and Environmental Policy Center, and at Wellesley College was a Rhodes Scholar nominee. She has also studied in Ghent, Belgium.

Record of Prior Testimony

In the matter of the Application of the New Jersey Bell Telephone Company for Approval of its Plan for an Alternative Form of Regulation, New Jersey Board of Regulatory Commissioners Docket No. T092030358, on behalf of the New Jersey Cable Television Association, filed September 21, 1992, cross-examined October 2, 1992.

DPUC review and management audit of construction programs of Connecticut's telecommunications local exchange carriers, Connecticut Department of Public Utility Control Docket No. 91-10-06, on behalf of the Connecticut Office of the Consumer Counsel, filed October 30, 1992, cross-examined November 4, 1992.

Joint petition of New England Telephone and Telegraph Company and Department of Public Service seeking a second extension of the Vermont Telecommunications Agreement, Vermont Public Service Board 5614, Public Contract Advocate, filed December 15, 1992, cross-examined December 21, 1992.

Application of the Southern New England Telephone Company to amend its rates and rate structure, Connecticut Department of Public Utility Control Docket No. 92-09-19, on behalf of the Connecticut Office of Consumer Counsel, filed March 26, 1993 and May 19, 1993, cross-examined May 25, 1993.

In the matter of the Application of Cincinnati Bell Telephone Company for Approval of an Alternative Form of Regulation and for a Threshold Increase in Rates, Public Utilities Commission of Ohio Case No. 93-432-TP-ALT, on behalf of Time Warner AxS, filed March 2, 1994.

Matters relating to IntraLATA Toll Competition and Access Rate Structure, Rhode Island Public Utilities Commission Docket 1995, on behalf of the Rhode Island Public Utilities Commission Staff, filed March 28, 1994 and June 9, 1994, cross-examined August 1, 1994.

In the Matter of the Application of The Ohio Bell Telephone Company for Approval of an Alternative Form of Regulation, Public Utilities Commission of Ohio Case No. 93-487-TP-ALT, on behalf of Time Warner AxS, filed May 5, 1994, cross-examined August 11, 1994.

In Re: Universal Service Proceeding: The Cost of Universal Service and Current Sources of Universal Service Support, Tennessee Public Service Commission Docket No. 95-02499, on behalf of Time Warner

AxS of Tennessee, L.P., filed October 18, 1995 and October 25, 1995, cross-examined October 27, 1995.

In Re: Universal Service Proceeding: Alternative Universal Service Support Mechanisms, Tennessee Public Service Commission Docket No. 95-02499, on behalf of Time Warner AxS of Tennessee, L.P., filed October 30, 1995 and November 3, 1995, cross-examined November 7, 1995.

In the Matter of the Application of US West Communications, Inc. for Authority to Increase its Rates and Charge for Regulated Title 61 Services, Idaho Public Utilities Commission Case No. USW-S-96-5, on behalf of the Staff of the Idaho Public Utilities Commission, filed November 26, 1996 and February 25, 1997, cross-examined March 19, 1997.

A Petition by the Regulatory Operations Staff to Open an Investigation into the Procedures and Methodologies that Should Be Used to Develop Costs for Bundled or Unbundled Telephone Services or Service Elements in the State of Nevada, Nevada Public Service Commission Docket No. 96-9035, on behalf of AT&T Communications of Nevada, Inc., filed May 23, 1997, cross-examined June 6, 1997.

Rulemaking on the Commission's Own Motion to Govern Open Access to Bottleneck Services and Establish a Framework for Network Architecture; Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, California Public Utilities Commission R.93-04-003 and I.93-04-002, co-authored a declaration on behalf of AT&T Communications of California, Inc., and MCI Telecommunications Corporation, filed on December 15, 1997 and on February 11, 1998.

Consolidated Petitions for Arbitration of Interconnection Agreements, Massachusetts Department of Telecommunications and Energy, DPU 96-73/74. 96-75, 96-80/81, 96-83, and 96-84, on behalf of AT&T Communications of New England, Inc. and MCI Telecommunications Corporation, filed February 3, 1998.

In the Matter of the Application of US West Communications, Inc. for Specific Forms of Price Regulation, Colorado Public Utilities Commission Docket No. 97-A-540T, on behalf of the Colorado Office of Consumer Counsel, filed on April 16, 1998, May 14, 1998 and May 27, 1998, cross-examined June 2, 1998.

Joint Application of SBC Communications and Southern New England Telecommunications Corporation for Approval of a Change of Control, Connecticut Department of Public Utility Control Docket No. 98-02-20, on behalf of the Connecticut Office of Consumer Counsel, filed May 7, 1998 and June 12, 1998, cross-examined June 15-16, 1998.

Fourth Annual Price Cap Filing of Bell Atlantic-Massachusetts, Massachusetts Department of Telecommunications and Energy Docket DTE 98-67, on behalf of MCI Telecommunications Corporation, filed September 11, 1998 and September 25, 1998, cross-examined October 22, 1998.

Applications of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, For Consent to Transfer Control, Federal Communications Commission CC Docket No. 98-141, co-sponsored affidavit on behalf of Indiana Utility Consumer Counselor, Michigan Attorney General, Missouri Public Counsel, Ohio Consumers' Counsel, Texas Public Utility Counsel and Utility Reform Network, filed on October 13, 1998.

In the Matter of the Joint Application of SBC Communications Inc., SBC Delaware, Inc., Ameritech Corporation and Ameritech Ohio for Consent and Approval of a Change of Control, Public Utilities Commission of Ohio Case No.98-1082-TP-AMT, on behalf of Ohio Consumers' Counsel, filed on December 10, 1998, cross-examined on January 22, 1999.

GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control, Federal Communications Commission CC Docket No. 98-184, co-sponsored an affidavit on behalf of a coalition of consumer advocates from Delaware, Hawaii, Maine, Maryland, Missouri, Ohio, Oregon, West Virginia, and Michigan, filed on December 18, 1998.

In the Matter of the Joint Application of GTE and Bell Atlantic to Transfer Control of GTE's California Utility Subsidiaries to Bell Atlantic, Which Will Occur Indirectly as a Result of GTE's Merger with Bell Atlantic, California Public Utilities Commission A. 98-12-005, on behalf of the California Office of Ratepayer Advocate, filed on June 7, 1999.

In the Matter of the Investigation on the Commission's Own Motion Into All Matters Relating to the Merger of Ameritech Corporation and SBC Communications Inc., Indiana Utility Regulatory Commission Cause No. 41255, on behalf of the Indiana Office of Utility Consumer Counselor, filed on June 22, 1999 and July 12, 1999, cross-examined July 20, 1999.

In re Application of Bell Atlantic Corporation and GTE Corporation for Approval of the GTE Corporation - Bell Atlantic Corporation Merger, Washington Utilities and Transportation Commission UT-981367, on behalf of the Washington Attorney General Public Counsel Section, filed on August 2, 1999.

Application of New York Telephone Company for Alternative Rate Regulation, Connecticut Department of Public Utility Control Docket No. 99-03-06, on behalf of the Connecticut Office of Consumer Counsel, filed October 22, 1999.

In re: Area Code 515 Relief Plan, Iowa Utilities Board Docket No. SPU-99-22, on behalf of the Iowa Office of Consumer Advocate, filed November 8, 1999, and December 3, 1999, cross-examined December 14, 1999.

In re Application of MCI WorldCom, Inc. and Central Telephone Company - Nevada, d/b/a Sprint of Nevada, and other Sprint entities for Approval of Transfer of Control pursuant to NRS 704.329, Nevada Public Utilities Commission Application No. 99-12029, on behalf of the Nevada Office of the Attorney General, Bureau of Consumer Protection, filed April 20, 2000.

In re: Area Code 319 Relief Plan, Iowa Utilities Board Docket No. SPU-99-30, on behalf of the Iowa Office of Consumer Advocate, filed June 26, 2000 and July 24, 2000.

In re: Sprint Communications Company, L.P. & Level 3 Communications, L.L.C., Iowa Utilities Board Docket Nos. SPU-02-11 & SPU-02-13, filed October 14, 2002 and January 6, 2003, cross-examined February 5, 2003.

Illinois Bell Telephone Company filing to increase unbundled loop and nonrecurring rates (tariffs filed December 24, 2002), Illinois Commerce Commission Docket No. 02-0864, on behalf of Citizens Utility Board, filed May 6, 2003 and February 20, 2004.

Qwest Petition for Competitive Classification of Business Services, Washington Utilities and Transportation Commission Docket No. 030614, on behalf of Public Counsel, filed August 13, 2003 and August 29, 2003, cross-examined September 18, 2003.

In the Matter of the Application of CenturyTel of Northwest Arkansas, LLC for Approval of a General Change in Rates and Tariffs, Arkansas Public Service Commission Docket No. 03-041-U, on behalf of the Attorney General, filed October 9, 2003 and November 20, 2003.

In the Matter of the Board's Review of Unbundled Network Elements, Rates, Terms and Conditions of Bell Atlantic New Jersey, Inc., New Jersey Board of Public Utilities Docket No. TO00060356, on behalf of the New Jersey Division of the Ratepayer Advocate, filed January 23, 2004.

In the Matter of the Implementation of the Federal Communications Commission's Triennial Review Order, New Jersey Board of Public Utilities Docket No. TO03090705, on behalf of the New Jersey Division of the Ratepayer Advocate, filed February 2, 2004.

Unbundled Access to Network Elements, Review of the Section 251 Unbundling Obligations of Local Exchange Carriers, Federal Communications Commission WC Docket No. 04-313, CC Docket No. 01-338, sponsored affidavit on behalf of the New Jersey Division of the Ratepayer Advocate, filed October 4, 2004.

Unbundled Access to Network Elements, Review of the Section 251 Unbundling Obligations of Local Exchange Carriers, Federal Communications Commission WC Docket No. 04-313, CC Docket No. 01-338, sponsored affidavit on behalf of the Utah Committee of Consumer Services, filed October 4, 2004.

In the Matter of Verizon New Jersey, Inc. For a Revision of Tariff B.P.U.-N.J. – No. 2 Providing for a Revenue Neutral Rate Restructure Including a Restructure of Residence and Business Basic Exchange Service and Elimination of $.65 Credit, New Jersey Board of Public Utilities Docket No. TT04060442, on behalf of the New Jersey Division of the Ratepayer Advocate, filed December 22, 2004 and January 18, 2005.

In the Matter of the Application of Verizon New Jersey, Inc. for Approval (I) of a New Plan for an Alternative Form of Regulation and (II) to Reclassify Multi-Line Rate Regulated Business Services as Competitive Services, and Compliance Filing, New Jersey Board of Public Utilities Docket No. TO01020095, on behalf of the New Jersey Division of the Ratepayer Advocate, filed January 10, 2005 and February 4, 2005.

Joint Petition of SBC Communications Inc. and AT&T Corp., Together with its Certificated Subsidiaries for Approval of Merger, New Jersey Board of Public Utilities Docket No. TM05020168, on behalf of the New Jersey Division of the Ratepayer Advocate, filed May 4, 2005.

Testimony before State Legislatures:

> Testified on September 24, 1997, before the Massachusetts State Legislature Joint Committee on Government Regulations regarding House Bill 4937 (concerning area codes).

Publications/Presentations

Articles on telecommunications and energy policy in trade journals, and presentations at industry associations and conferences include the following:

Reports:

"Assessing SBC/Pacific's Progress in Eliminating Barriers to Entry: The Local Market in California Is Not Yet 'Fully and Irreversibly Open'" (with Patricia D. Kravtin, Dr. Lee L. Selwyn, and Douglas S. Williams). Prepared for the California Association of Competitive Telecommunications Companies, July 2000.

"Where Have All the Numbers Gone? (Second Edition): Rescuing the North American Numbering Plan from Mismanagement and Premature Exhaust" (with Dr. Lee L. Selwyn). Prepared for the Ad Hoc Telecommunications Users Committee, June 2000.

"Price Cap Plan for USWC: Establishing Appropriate Price and Service Quality Incentives for Utah" (with Patricia D. Kravtin and Scott C. Lundquist). Prepared for the Utah Division of Public Utilities, March 22, 2000.

"Telephone Numbering: Establishing a Policy for the District of Columbia to Promote Economic Development" (with Douglas S. Williams and Sarah C. Bosley). Prepared for the District of Columbia Office of People's Counsel, February 2000 (submitted to Eric W. Price, Deputy Mayor, April 6, 2000).

"The Use of Cost Proxy Models to Make Implicit Support Explicit, Assessing the BCPM and the Hatfield Model 3.1" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, March 1997.

"The Use of Forward-Looking Economic Cost Proxy Models" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC Docket No. CCB/CPB 97-2, February 1997.

"Continuing Evaluation of Cost Proxy Models for Sizing the Universal Service Fund, Analysis of the Similarities and Differences between the Hatfield Model and the BCM2" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, October 1996.

"Converging on a Cost Proxy Model for Primary Line Basic Residential Service, A Blueprint for Designing a Competitively Neutral Universal Service Fund" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, August 1996.

"The BCM Debate, A Further Discussion" (with Dr. Lee L. Selwyn and Helen E. Golding). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, May 1996.

"The Cost of Universal Service, A Critical Assessment of the Benchmark Cost Model" (with Dr. Lee L. Selwyn). Prepared for the National Cable Television Association, submitted in FCC CC Docket No. 96-45, April 1996.

"Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service

Environment" (with Dr. Lee L. Selwyn). Prepared for Time Warner Communications, Inc., October 1995.

"A Balanced Telecommunications Infrastructure Plan for New York State" (with Dr. Lee L. Selwyn). Prepared for the New York User Parties, December 4, 1992.

"A Roadmap to the Information Age: Defining a Rational Telecommunications Plan for Connecticut" (with Dr. Lee L. Selwyn, Susan M. Gately, JoAnn S. Hanson, David N. Townsend, and Scott C. Lundquist). Prepared for the Connecticut Office of Consumer Counsel, October 30, 1992.

"Analysis of Local Exchange Carrier April 1988 Bypass Data Submissions" (with William P. Montgomery and Dr. Lee L. Selwyn). Prepared for the National Association of State Utility Consumer Advocates, August 1988.

"Strategic Planning for Corporate Telecommunications in the Post-Divestiture Era: A Five Year View" (with Dr. Lee L. Selwyn, William P. Montgomery, and David N. Townsend). Report to the International Communications Association, December 1986.

"Competitive Pricing Analysis of Interstate Private Line Services." Prepared for the National Telecommunications Network, June 1986.

"Analysis of Diamond State Telephone Private Line Pricing Movements: 1980-1990." Prepared for Network Strategies, Inc., April 1985.

"Analysis of New York Telephone Private Line Pricing Movements: 1980-1990." Prepared for Network Strategies, Inc., February 1985.

Presentations:

"FCC's Regulatory Stance – Consumer Advocates' Role More Important Than Ever," 2005 National Association of State Utility Consumer Advocates Winter Meeting, March 2, 2005, Washington, D.C.

"Impact of Federal Regulatory Developments on Consumers and Consumers' Impact on Regulatory Developments," Presentation for the Washington Attorney General's Office, Seattle, Washington, May 27, 2003.

"The Finances of Local Competition" Presentation at the New England Conference of Public Utilities Commissioners 54th Annual Symposium, Mystic, Connecticut, May 21, 2001.

"Facilities-Based Competition" Presentation at the New England Conference of Public Utilities Commissioners 52nd Annual Symposium, Bretton Woods, New Hampshire, May 24, 1999.

"Exploring Solutions for Number Exhaust on the State Level" and "A Forum for Clarification and Dialogue on Numbering Ideas," ICM Conference on Number Resource Optimization, December 10-11, 1998.

"Telecommunications Mergers: Impact on Consumers," AARP Legislative Council 1998 Roundtable Meeting, November 18, 1998

"Consumer Perspectives on Incumbent Local Exchange Carrier Mergers," National Association of Regulatory Utility Commissioners 110th Annual Convention, November 11, 1998.

Federal Communications Commission En Banc Hearing on "Proposals to Revised the Methodology for Determining Universal Service Support," CC Docket Nos. 96-45 and 97-160," June 8, 1998, panelist.

"Universal Service: Real World Applications," 1997 National Association of State Utility Consumer Advocates Mid-Year Meeting, June 9, 1997.

"Modeling operating and support expenses" and "Modeling capital expenses," panelist for Federal-State Joint Board on Universal Service Staff Workshops on Proxy Cost Models, January 14-15, 1997, CC Docket 96-45.

"Evaluating the BCM2: An Assessment of Its Strengths and Weaknesses," presentation to the AT&T Cost Team (with Michael J. DeWinter), December 4, 1996.

"Interpreting the Telecommunications Act of 1996 Mandate for the Deployment of Advanced Telecommunications Services in a Fiscally Responsible and Fully Informed Manner" (with Helen E. Golding), *Proceedings of the Tenth NARUC Biennial Regulatory Information Conference*, Volume 3, September 11-13, 1996.

"Making Adjustments to the BCM2." Presentation to the Staff of the Federal-State Joint Board on Universal Service, September 16, 1996.

"Converging on a Model: An Examination of Updated Benchmark Cost Models and their Use in Support of Universal Service Funding." Presentation to the National Association of Regulatory Utility Commissioners Summer Committee Meetings, July 22, 1996.

"The Phone Wars and How to Win Them" (with Helen E. Golding). *Planning*, July 1996 (Volume 62, Number 7).

"ETI's Corrections to and Sensitivity Analyses of the Benchmark Cost Model." Presentation to the Staff of the Federal-State Joint Board on Universal Service," May 30, 1996.

"Redefining Universal Service." Presentation at the *Telecommunications Reports* conference on "Redefining Universal Service for a Future Competitive Environment," January 18, 1996.

"Funding Universal Service: Maximizing Penetration and Efficiency in a Competitive Local Service Environment," (with Lee L. Selwyn, under the direction of Donald Shepheard), a Time Warner Communications Policy White Paper, September 1995.

"Stranded Investment and the New Regulatory Bargain," (with Lee L. Selwyn, under the direction of Donald Shepheard), a Time Warner Communications Policy White Paper, September 1995.

"New Frontiers in Regulation." Presentation to the New England Women Economists Association, December 12, 1995.

"Local Cable and Telco Markets." Presentation at the New England Conference of Public Utilities Commissioners 46th Annual Symposium, June 29, 1993.

"Relationship of Depreciation to State Infrastructure Modernization." Presentation at the *Telecommunications Reports* conference on "Telecommunications Depreciation," May 6, 1993.

"Crafting a Rational Path to the Information Age." Presentation at the State of New Hampshire's conference on the "Twenty-First Century Telecommunications Infrastructure," April 1993.

"The Political Economics of ISDN," presentation at the John F. Kennedy School of Government seminar on "Getting from Here to There: Building an Information Infrastructure in Massachusetts," March 1993.

"ISDN Rate-Setting in Massachusetts." *Business Communications Review*, June 1992 (Volume 22, No. 6).

"The New Competitive Landscape: Collocation in Massachusetts." Presentation at TeleStrategies Conference on Local Exchange Competition, November 1991.

"Telecommunications Policy Developments in Massachusetts." Presentations to the Boston Area Telecommunications Association, October 1989; March 1990; November 1990; June 1992. Presentation to the New England Telecommunications Association, March 1990.

"Tariff Data is Critical to Network Management." *Telecommunications Products and Technology*, May 1988 (Volume 6, No. 5).

"How to Capitalize on the New Tariffs." Presentation at Communications Managers Association conference, 1988.

"Auction Methods for the Strategic Petroleum Reserve" (With Steven Kelman and Richard Innes). Prepared for Harvard University Energy Security Program, July 1983.

"How Two New England Cities Got a $100 Million Waste-to-Energy Project" (with Diane Schwartz). *Planning*, March 1983 (Volume 49, Number 3).

"Evaluation of Economic Development and Energy Program in Lawrence, Massachusetts." (with Richard Innes). Prepared for U.S. Department of Energy, August, 1982.

"Energy Efficiency in New England's Rental Housing." New England Regional Commission, 1981.

"Low Level Radioactive Waste Management in New England." New England Regional Commission, 1981.

"The Realtor's Guide to Residential Energy Efficiency." Prepared for the U.S. Department of Energy and the National Association of Realtors, 1980.

Advisor to:

United States General Accounting Office Report to the Subcommittee on Antitrust, Business

Rights and Competition, Committee on the Judiciary, U.S. Senate, *Characteristics and Competitiveness of the Internet Backbone Market*, GAO-02-16, October 2001.

Attachment B

Statement of Qualifications of Sarah M. Bosley

SARAH M. BOSLEY
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Sarah M. Bosley is presently providing consulting services to public sector agencies as a consultant, in partnership with Susan M. Baldwin. Ms. Bosley earned her Master of Science in Agricultural and Applied Economics from Virginia Tech, her Master of Arts in International Affairs from American University, and her Bachelor of Arts in Political Science from McGill University.

Ms. Bosley worked with Economics and Technology, Inc. for over four years, most recently as a Consultant. In her capacity as Consultant and, previously, as Senior Analyst, Ms. Bosley conducted economic analysis and research and contributed to expert testimony in numerous state and federal regulatory proceedings. She contributed to and co-authored reports to state commissions, white papers, and comments filed in Federal Communications Commission ("FCC") proceedings. Ms. Bosley's experience includes the analysis of a broad range of public policy issues, including: numbering optimization and area code relief; tariff research; access charges; federal universal service policy; the impact of mergers on consumers; applications for section 271 authority; local competition; unbundled network elements and interconnection agreements; alternative regulation, price cap plans, and total factor productivity.

Ms. Bosley has substantial experience in the evaluation of state and federal regulation of incumbent local exchange carriers. She analyzed proposals in the FCC's Price Cap Performance Review and Access Charge Proceedings. With regard to state proceedings, Ms. Bosley participated in the preparation of expert testimony evaluating the incumbent local telephone company's ("ILEC") proposed plan for alternative rate regulation or reclassification of services as competitive in Connecticut, New Jersey, Illinois, Pennsylvania, Massachusetts, and Utah. She has modeled the effects of varying "X-factors" on a carrier's earnings and utilized numerous methods for determining productivity growth factors to be used in an ILEC's price cap plan. She has also contributed to testimony addressing local exchange market structure and the impact of alternative regulation plans on consumers. Ms. Bosley co-authored a study for the Wisconsin Public Service Commission regarding productivity for local exchange carriers in Wisconsin. Most recently, Ms. Bosley provided assistance to the New Jersey Division of the Ratepayer Advocate in two proceedings before the Board of Public Utilities: Verizon's requests to raise basic local exchange rates and to reclassify small business local exchange service as competitive.

Ms. Bosley has participated in numerous regulatory proceedings addressing the implementation of the Telecommunications Act of 1996. She was a member of project teams that analyzed the incumbent's application for section 271 authority to provide long distance services in Pennsylvania and Minnesota. In Minnesota, her work concentrated on Qwest's operations support systems capabilities and a statistical analysis of performance testing results. Ms. Bosley was actively involved in several state proceedings addressing local exchange competition policies and interconnection arrangements between incumbent local exchange providers and new market entrants, including a proceeding in New Jersey to set unbundled network element policy and rates and work on behalf of a new entrant in arbitration proceedings in Nevada, California, Georgia, Ohio, Pennsylvania, and New York.

Ms. Bosley's work has also included the evaluation of telecommunications mergers. On behalf of state consumer advocates in California, Hawaii, and Washington, she examined the effect of the proposed merger between Bell Atlantic Corporation and GTE Corporation on competition in the local telecommunications market, including the quantification of projected merger synergies to be shared with ratepayers. On behalf of the consumer advocate in Indiana, Ms. Bosley analyzed the impact of the merger between SBC Communications and Ameritech Corporation on local exchange competition, infrastructure investment, and service quality. Most recently, Ms. Bosley is assisting the New Jersey Division of the Ratepayer Advocate in its review of both the proposed merger of SBC Communications, Inc. and AT&T Corp. and the proposed merger of Verizon Communications and MCI, Inc.

Ms. Bosley has developed extensive knowledge of numbering optimization measures both at the federal and state levels. She has contributed to and co-authored a number of rounds of comments filed on behalf of consumer advocates and users groups in the Federal Communications Commission's numbering optimization docket. She contributed to initial and reply statements of position on behalf of the Iowa Office of the Consumer Advocate regarding area code relief and numbering conservation measures in Iowa, and provided technical assistance to the District of Columbia Office of People's Counsel regarding number conservation measures.

Ms. Bosley's work as a Consultant has also included participation in the Federal Communications Commission's evaluation of its inter-carrier compensation regime; analysis of access charge reforms at both the state and federal levels; and several universal service proceedings, including proposals to expand the definition of universal service to include, among other things, the provision of advanced services.

Ms. Bosley received the Driscoll Award for Outstanding Research for her master's thesis, which compared welfare reform outcomes in non-metropolitan communities to those in metropolitan communities. This work included the development and econometric estimation of a labor supply model used to identify barriers to participation in the labor market for female household heads. Ms. Bosley was also employed as Graduate Research Assistant for the Department of Agricultural and Applied Economics at Virginia Tech while pursuing her studies.

Publications/Papers

"A Study of Total Factor Productivity in the Wisconsin Local Exchange Carrier Industry" (with Scott C. Lundquist and Lee L. Selwyn). Prepared for the Public Service Commission of Wisconsin (Docket No. 1-AC-193), January 2003.

"Telephone Numbering: Establishing a Policy for the District of Columbia to Promote Economic Development" (with Susan M. Baldwin and Douglas S. Williams). Prepared for the District of Columbia Office of People's Counsel, February 2000 (submitted to Eric W. Price, Deputy Mayor, April 6, 2000).

"How Welfare Reform Impacts Non-Metropolitan and Metropolitan Counties in Virginia," (with Bradford Mills), *REAP Research Report Number 46*, Rural Economic Analysis Program of Virginia, September 1999.

"More to Welfare Reform than a Big Caseload Decline," (with Trawana Porter, Jeff Alwang, and Bradford Mills), *Horizons*, Rural Economic Analysis Program of Virginia, September/October 1999.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Verizon Communications Inc. and	)	WC Docket No. 05-75
MCI, Inc.	)	
Applications for Approval of	)	
Transfer of Control	)	

EXHIBITS TO THE

DECLARATION OF

SUSAN M. BALDWIN

and

SARAH M. BOSLEY

on behalf of the

New Jersey Division of the Ratepayer Advocate

May 9, 2005

REDACTED – FOR PUBLIC INSPECTION

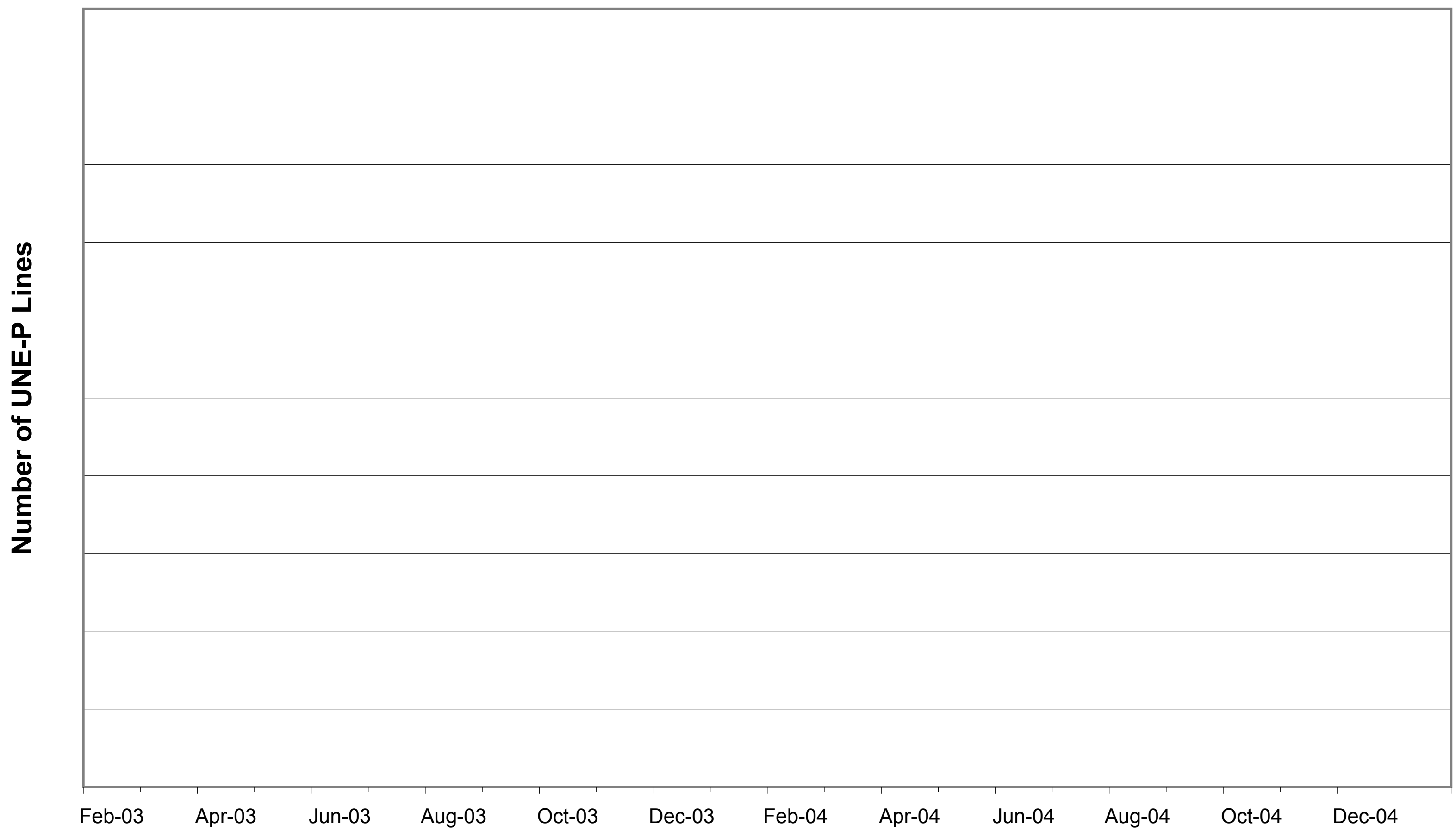
FCC CC Docket No. 05-75
DECLARATION OF SUSAN M. BALDWIN AND SARAH M. BOSLEY

LIST OF EXHIBITS

Confidential Exhibit SMB-1a	Demand for Verizon Residential UNE-P
Confidential Exhibit SMB-1b	MCI Residential Lines Served Utilizing UNE-P
Confidential Exhibit SMB-2a	Total Residential Presubscribed LD Lines Served by Verizon (1st Quarter 2003 - 4th Quarter 2004)
Confidential Exhibit SMB-2b	Total Business Presubscribed LD Lines Served by Verizon (1st Quarter 2003 - 4th Quarter 2004)
Confidential Exhibit SMB-2c	Residential Presubscribed LD Lines Served by Verizon New Jersey (1st Quarter 2003 - 4th Quarter 2004)
Confidential Exhibit SMB-2d	Business Presubscribed LD Lines Served by Verizon New Jersey (1st Quarter 2003 - 4th Quarter 2004)
Exhibit SMB-3	Growth in Demand for Verizon's Long Distance Service (1st Quarter 2002 - 4th Quarter 2004)
Exhibit SMB-4	Growth in Demand for Verizon's DSL Service (1st Quarter 2002 - 4th Quarter 2004)
Exhibit SMB-5	Growth in Demand for Verizon's Domestic Wireless Service (1st Quarter 2002 - 4th Quarter 2004)
Exhibit SMB-6	Verizon Freedom for Business (Verizon webpage material)
Exhibit SMB-7	Verizon Freedom for Residential Customers (Verizon webpage material)
Exhibit SMB-8	MCI Residential Phone Service (MCI webpage material)
Exhibit SMB-9	MCI Small and Medium Business Service (MCI webpage material)

Confidential Exhibit SMB-1a
FCC WC Docket No. 05-75

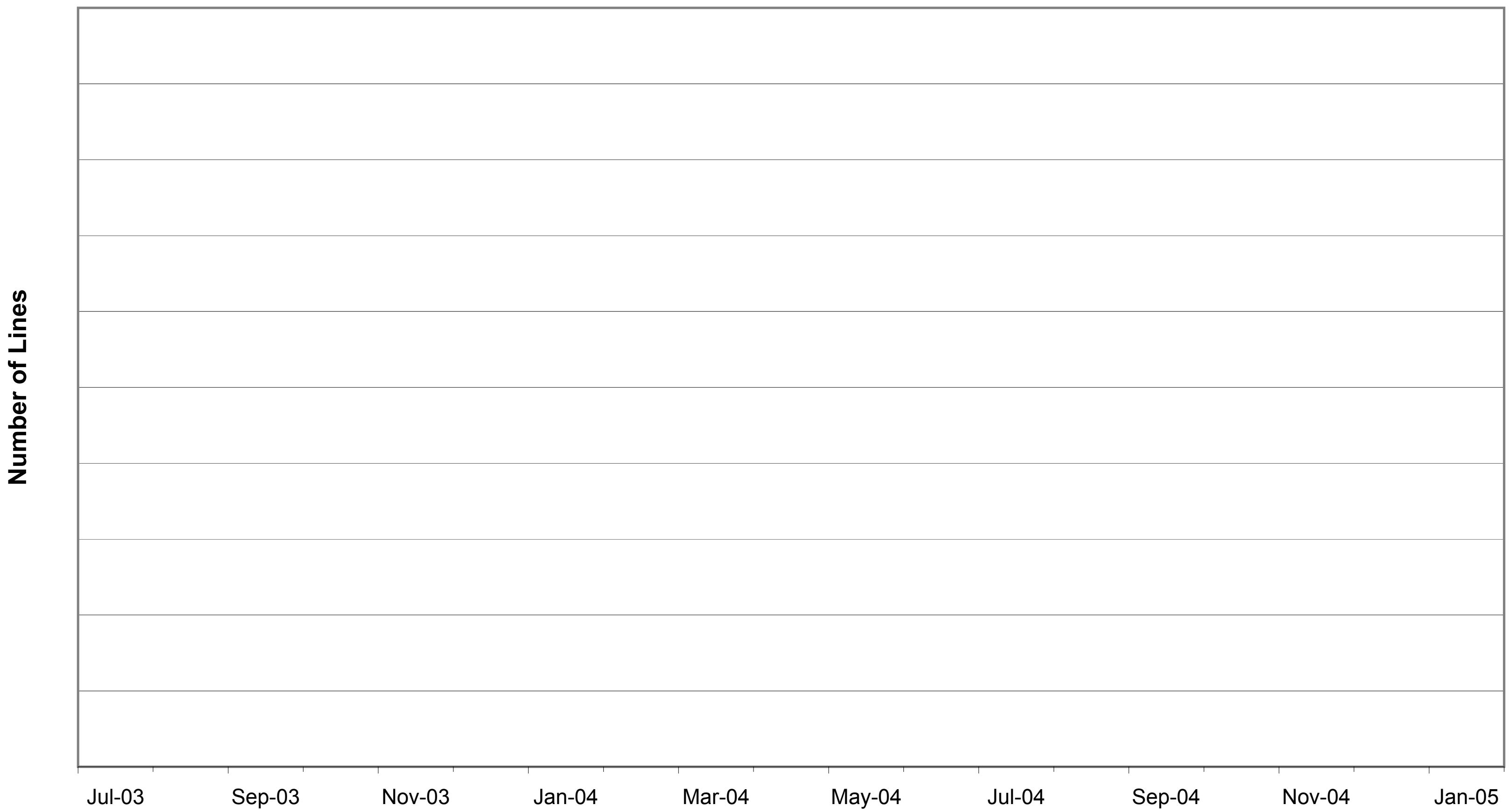
Demand for Verizon Residential UNE-P



Source: Declaration of Ronald H. Lataille (Verizon/MCI), Exhibit 1.

REDACTED -- FOR PUBLIC INSPECTION

MCI Lines Served Utilizing Residential UNE-P

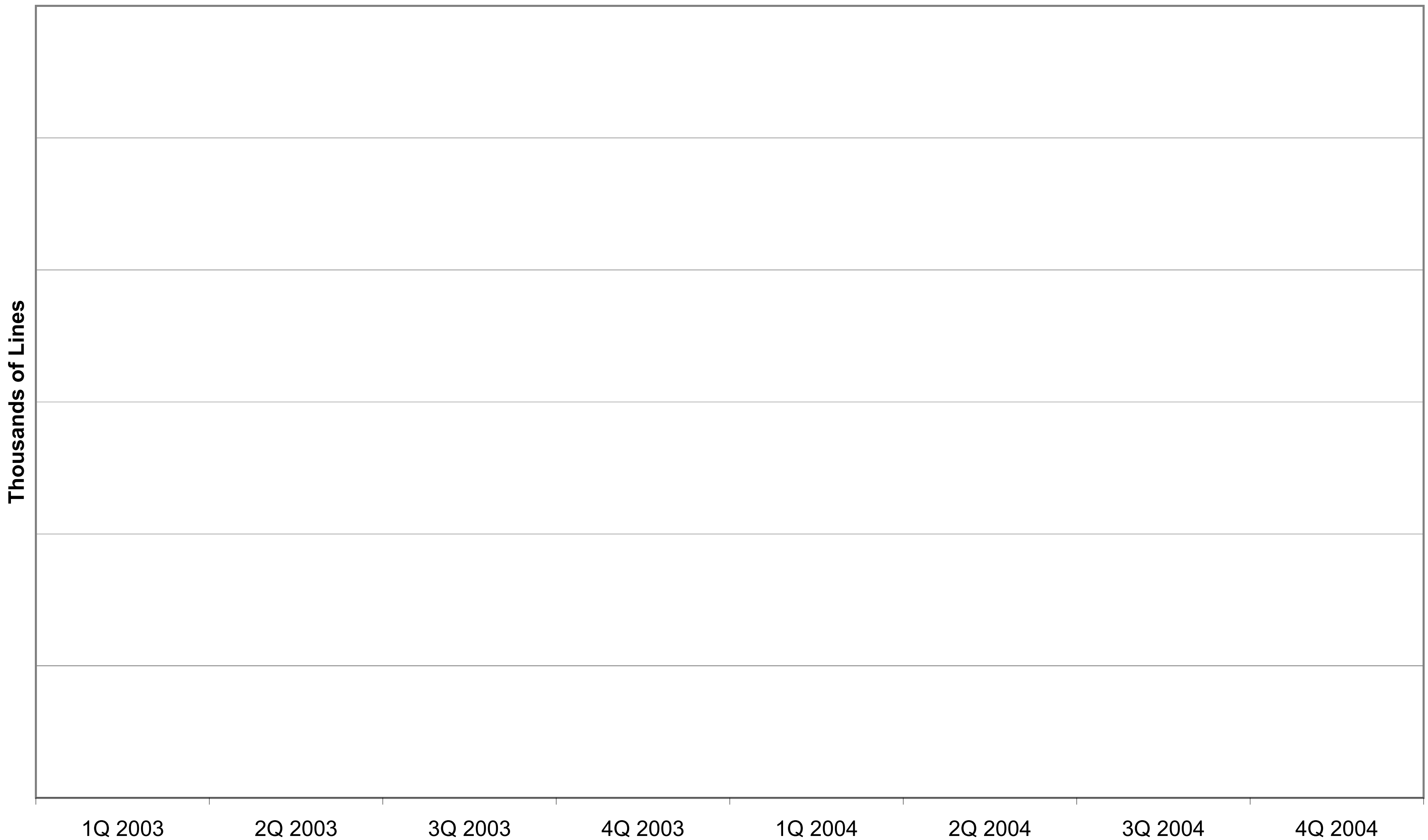


Source: Declaration of Ronald H Latatille (Verizon/MCI), Exhibit 2

REDACTED -- FOR PUBLIC INSPECTION

Confidential Exhibit SMB-2a
FCC WC Docket No. 05-75

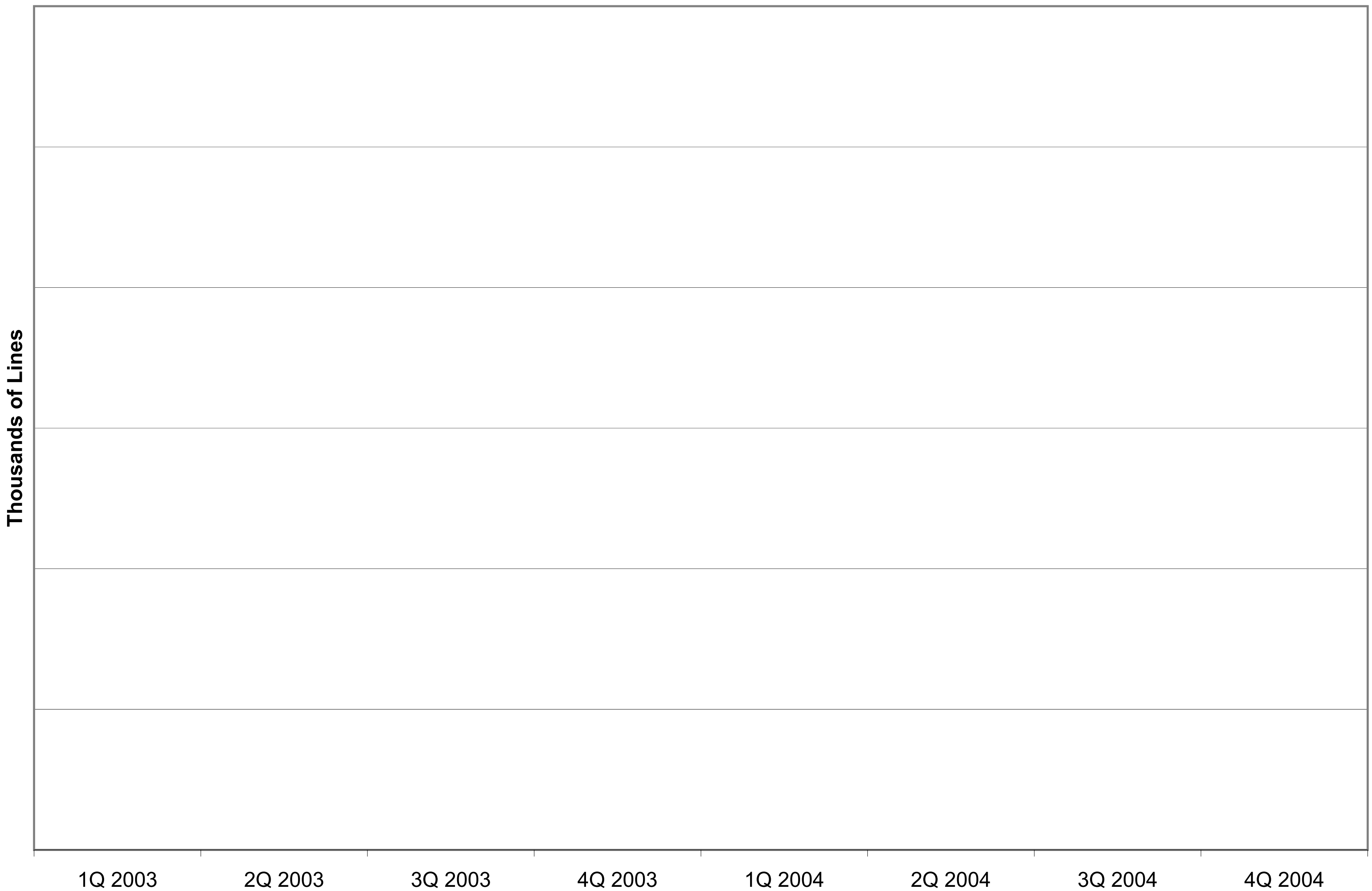
Total Residential Presubscribed LD Lines Served by Verizon
(1st Quarter 2003 - 4th Quarter 2004)



Source:
Declaration of
Ronald H. Lataille (Verizon/MCI),
Exhibit 6.

REDACTED -- FOR PUBLIC INSPECTION

Total Business Presubscribed LD Lines Served by Verizon
(1st Quarter 2003 - 4th Quarter 2004)

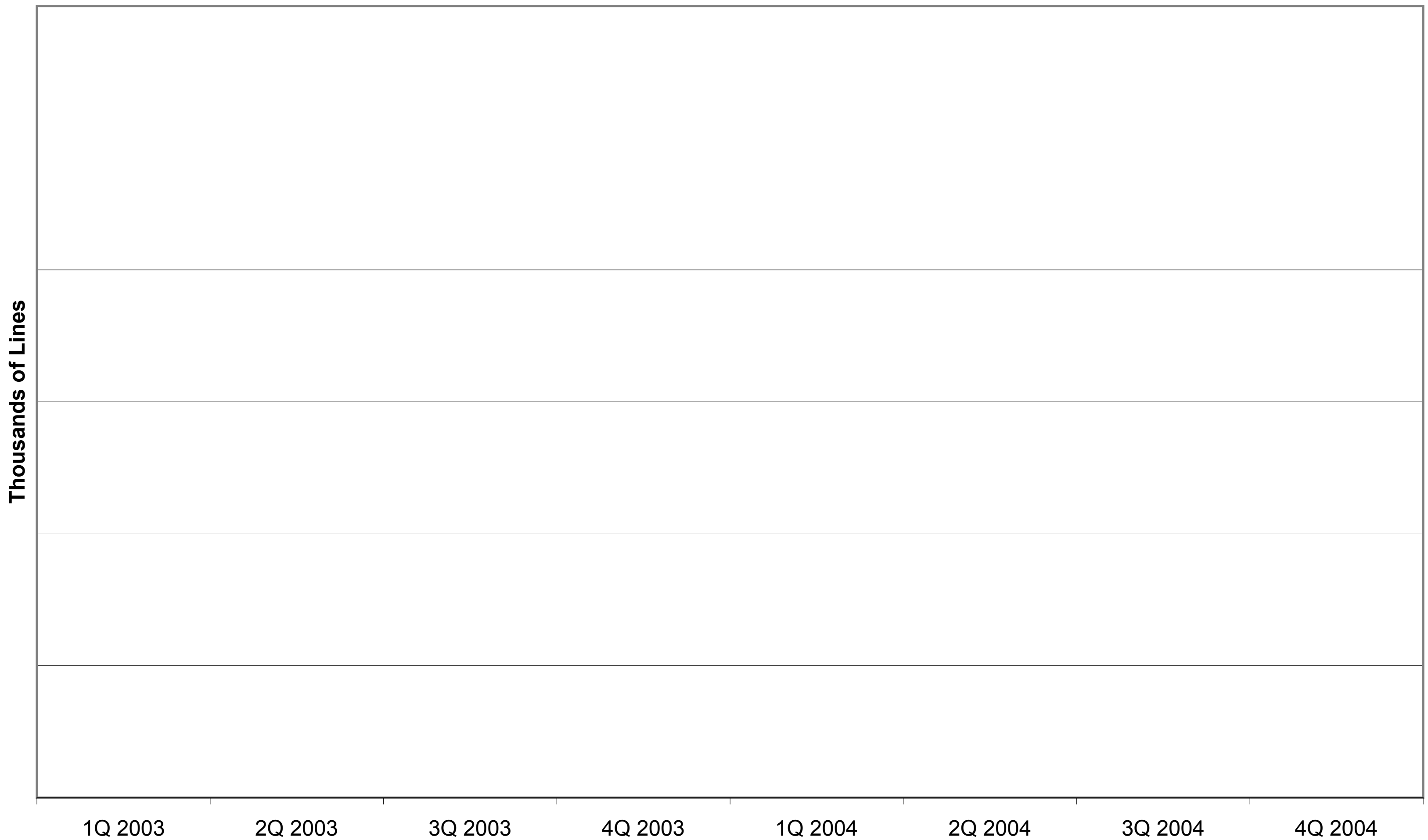


Source:
Declaration of
Ronald H. Lataille (Verizon/MCI),
Exhibit 6.

REDACTED -- FOR PUBLIC INSPECTION

Confidential Exhibit SMB-2c
FCC WC Docket No. 05-75

Residential Presubscribed LD Lines Served by Verizon New Jersey
(1st Quarter 2003 - Fourth Quarter 2004)

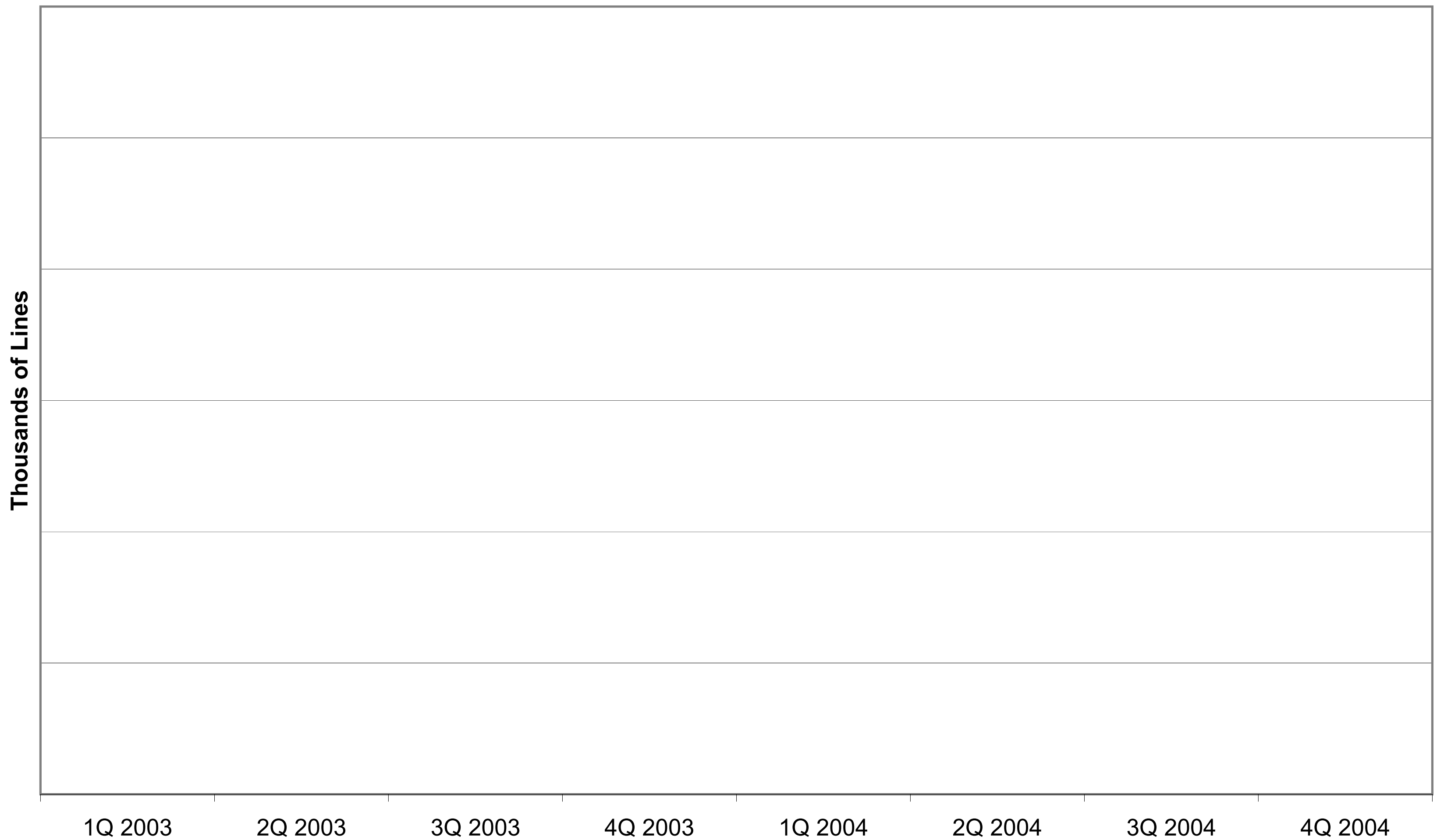


Notes: Verizon first offered Verizon Freedom packages to New Jersey customers on July 9, 2003. (NJ BPU Docket No. TO01020095, Verizon New Jersey Inc. Response to RPA Request RPA-VNJ-26.) Verizon New Jersey obtained Section 271 authority on June 24 2002.

Source:
Declaration of
Ronald H. Lataille (Verizon/MCI),
Exhibit 6.

REDACTED -- FOR PUBLIC INSPECTION

Business Presubscribed LD Lines Served by Verizon New Jersey
(1st Quarter 2003 - 4th Quarter 2004)

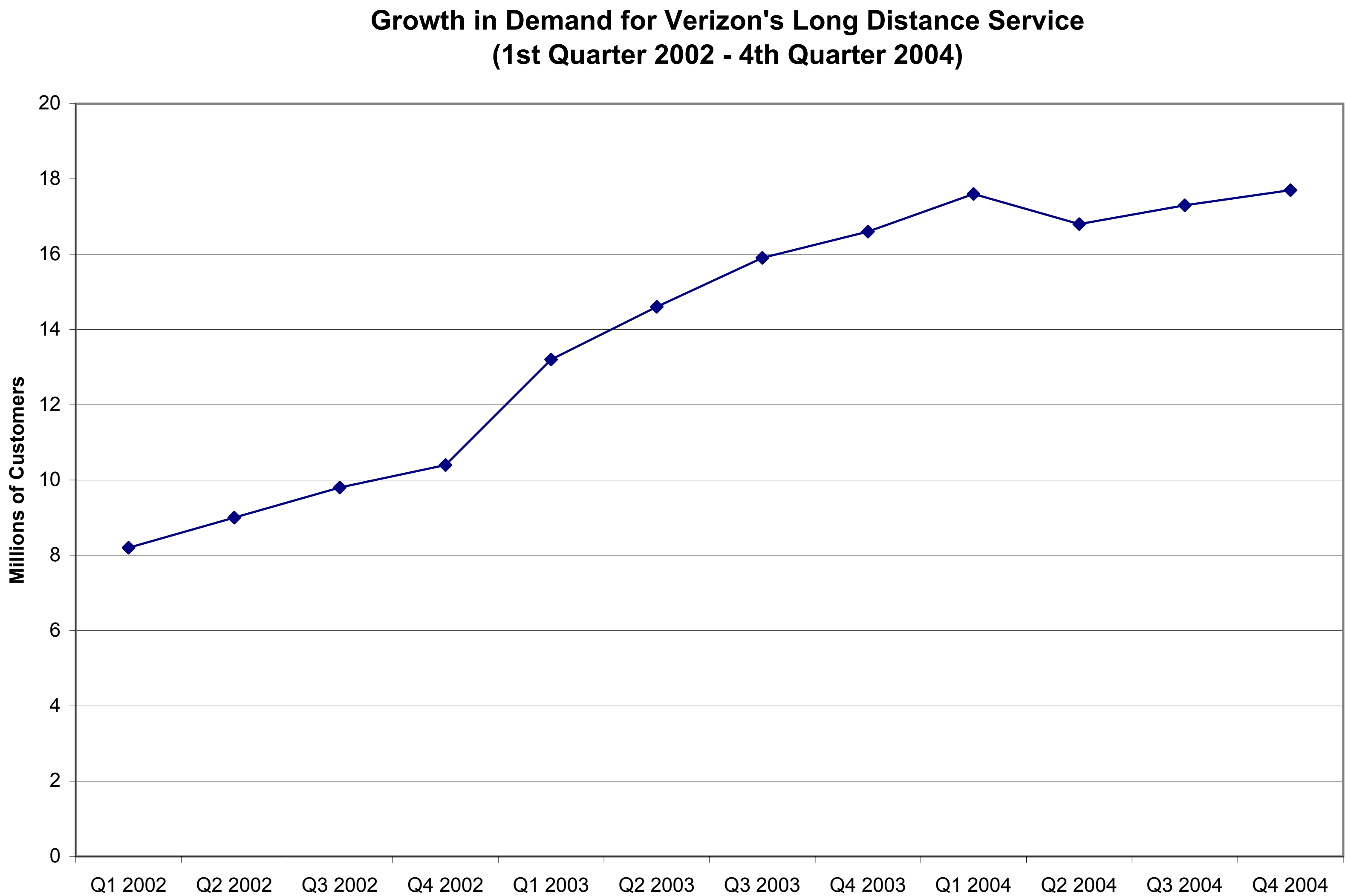


Notes: Verizon first offered Verizon Freedom packages to New Jersey customers on July 9, 2003. (NJ BPU Docket No. TO01020095, Verizon New Jersey Inc. Response to RPA Request RPA-VNJ-26.) Verizon New Jersey obtained Section 271 authority on June 24 2002.

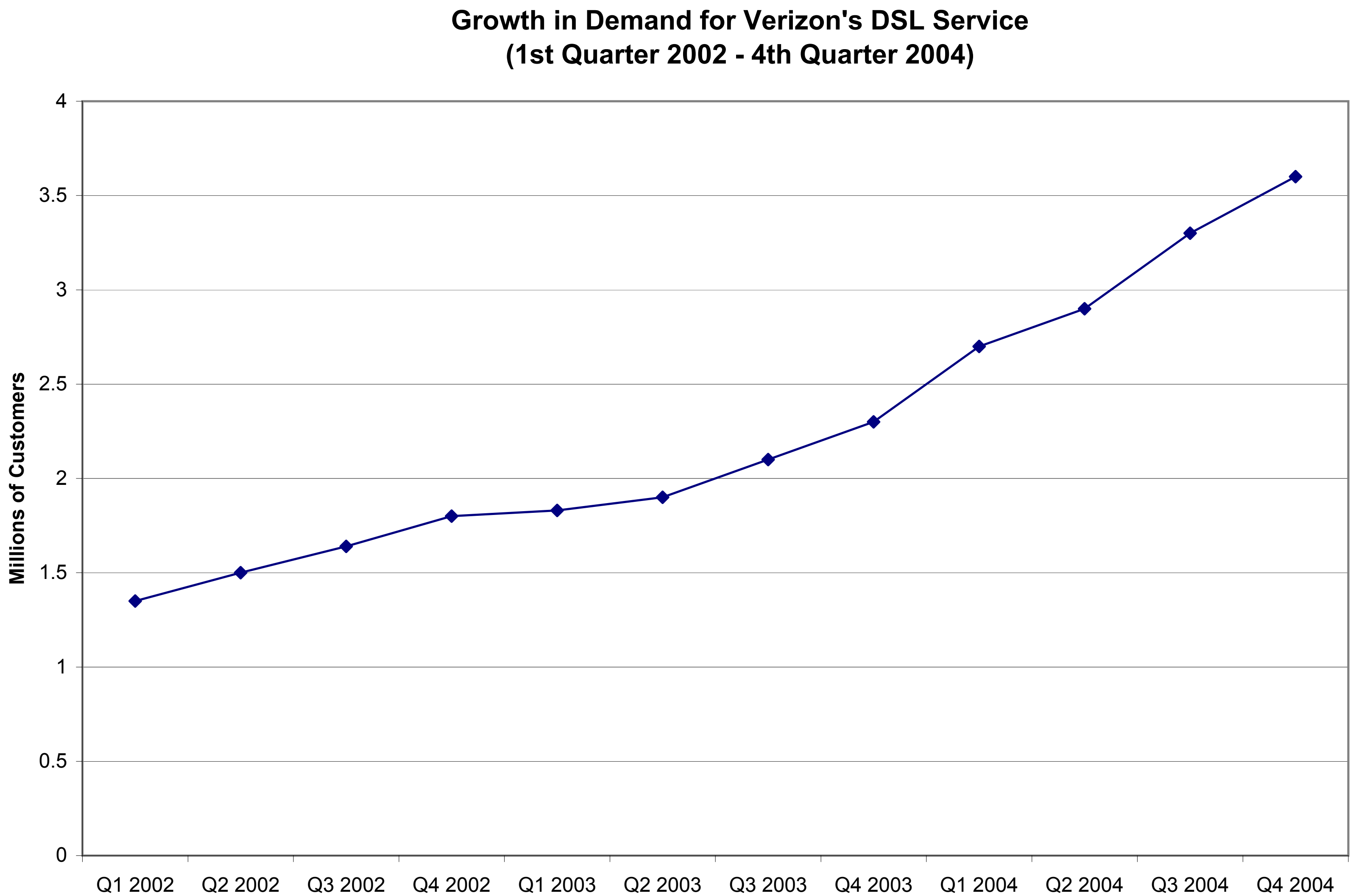
Source:
Declaration of
Ronald H. Lataille (Verizon/MCI),
Exhibit 6.

REDACTED -- FOR PUBLIC INSPECTION

Exhibit SMB-3
FCC WC Docket No. 05-75



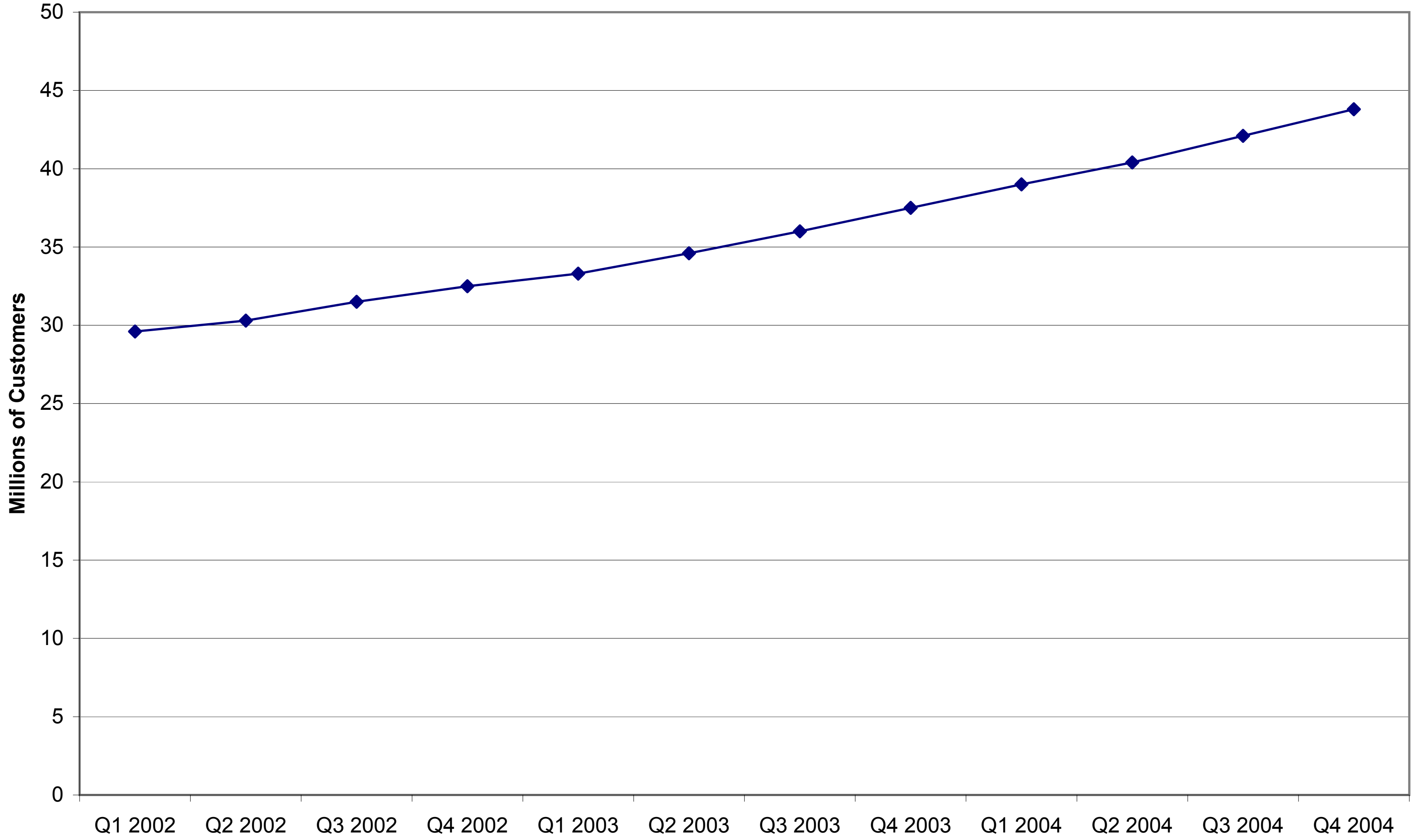
Sources: Verizon Investor Quarterly, First Quarter 2002 through Fourth Quarter 2004.



Sources: Verizon Investor Quarterly, First Quarter 2002 through Fourth Quarter 2004.

Exhibit SMB-5
FCC WC Docket No. 05-75

Growth in Demand for Verizon's Domestic Wireless Service
(1st Quarter 2002 - 4th Quarter 2004)



Sources: Verizon Investor Quarterly, First Quarter 2002 through Fourth Quarter 2004.

Exhibit SMB-6

Verizon Freedom for Business (Verizon web page material)

available at:

http://www22.verizon.com/Business/fyb/Packages/Packages/
Verizon+Freedom+For+Business/Default.htm

Service Location

NJ
change location

Verizon Freedom For Business

Save on Unlimited Local, Regional or Long Distance Calling Packages

Choose the Verizon Freedom for Business package that meets your needs and budget. You may also qualify for a monthly discount on DSL service when you add it to your Verizon Freedom for Business package.

To compare products, check the boxes and click compare.

Verizon Freedom for Business with DSL

Unlimited direct-dialed local, regional, and long distance calling with discounted DSL service included for one flat rate.

Monthly Fees
$ 77.95 - $ 272.95

ORDER NOW >>

Verizon Freedom for Business

Unlimited direct-dialed local, regional and long distance calls for one flat rate.

Monthly Fees
Starting at $ 38.00

ORDER NOW >>

Verizon Freedom Basic for Business, Local with Toll

Unlimited direct-dialed local and regional toll calls for one low monthly rate.

Monthly Fees
Starting at $ 25.00

ORDER NOW >>

Verizon Freedom Basic for Business, Local

Money-saving business package offers flat competitive rates on all direct-dialed local calls.

Monthly Fees
Starting at $ 15.00

ORDER NOW >>

To compare products, check the boxes and click compare.

Solution Finder

Answer a few questions and we'll suggest products for you to consider.

GET STARTED

Resources

- What Calls Are Local?
- Free online courses and articles
- Telecom 101
- Learning Center

Verizon Freedom for Business
- Unlimited local and regional calling
- Unlimited long distance calling in the U.S.

Learn more

Integrated Data and Voice
Simplify, Enhance, Save.
Combine your data, Internet, local and long distance service on one high-speed, high capacity line.

Learn more

Verizon Freedom for Business

Print Email This Page

Unlimited Calling for One Low Price

Enjoy the freedom to call anywhere across the U.S. (including Alaska, Hawaii and the U.S. territories) with no time restrictions or limits on who you can call. All at one great rate for up to 10 qualified business lines (local line charges not included).

Benefits

- Unlimited voice calling for direct-dialed local, regional toll and long distance business calls.
- Fixed flat rate for maximum budget control and savings (local line charges not included).
- One simple monthly statement for your Verizon services.
- Free set-up on toll-free service when you sign up for Verizon Long Distance – with a waiver on the $5.00 monthly recurring charge for six months (a $30.00 value per line).
- Eligible for additional discounts on other services such as DSL.

Features

Verizon Freedom^sm for Business customers are eligible for discounts on other great Verizon services like:

- **DSL** – Save 20% on DSL when you subscribe to Verizon Freedom for Business with DSL (one-year contract required)
- **Toll-Free Service** – Sign up for a special in-bound toll-free number free and get discounted rates on every call. Plus, if you switch your toll-free service from another long distance company, you'll get 800 inbound toll-free domestic minutes FREE.
- Save on individual calling features with a special calling feature package. **Verizon Freedom Feature Package 1** includes Call Forwarding, Call Waiting, and Three-Way Calling.
- **Verizon Freedom Feature Package 2** includes both Voice Messaging and Caller ID.
- Add **Call Forwarding – Busy** and **Call Forwarding – Don't Answer** to either feature package for no extra charge.

Monthly Fees
Starting at $ 38.00

ORDER NOW >>

How To Get Started

It's easy to place your order online. You'll be asked to make the following selections:

1. Select one of these qualifying local phone service options:
   - **Business Lines**
   - **CustoPAK®**
   - **Centrex® Systems**
2. Select Verizon as your Regional Toll provider. Enjoy unlimited regional toll calling to areas that are outside your local calling area, but not quite long distance.
3. Select Verizon as your Long Distance provider and get unlimited long distance on direct-dialed calls anywhere in the U.S.

ORDER NOW >>

Additional Product Info

- DSL High-speed, unlimited Internet access for a low monthly fee.
- Voice Messaging Enhance your phone system with Verizon Business Voice mail and never miss another call — even when your line is busy or you're not there to answer it.

Service Location

NJ
change location

Solution Finder

Answer a few questions and we'll suggest products for you to consider.

GET STARTED

More Information

- Toll-Free Service

Resources

- Learning Center
- Free online courses and articles
- Telecom 101

Additional Product Info
Effective May 18, 2005 there will be a $2 increase in the long distance portion of your Freedom for Business month to month calling plan. You can avoid this $2 price increase and save an additional $2 by subscribing to a one-year term commitment (applicable terms and conditions apply). For more information or questions regarding the term plan, please call the business office number on your bill.

Verizon Freedom for Business includes unlimited direct-dialed voice calls to Guam, Alaska, Hawaii, Puerto Rico, Virgin Islands, and Northern Marianna Islands. Calls originating from other lines are billed at the normal message/measured rate.

These packages are available only to business customers and include unlimited local, regional toll and direct-dialed long distance calling for voice use only. You must select and retain Verizon as your local and regional toll provider and Verizon Enterprise Solutions as your long distance service provider. Universal Service Fees, taxes and other charges apply. Only available to business customers with 25 voice grade or voice grade equivalent lines or less at the time of initiation of this service and only available on up to ten lines per customer. Package rate is exclusive of business line rate and other charges. Call detail not provided on lines with Verizon Freedom for Business. Services not available in all areas. Rates subject to change. Other terms and restrictions apply.

Verizon Freedom Feature Package 1 is available to customers who purchase Verizon Freedom for Business or Verizon Freedom Basic for Business, Local with Toll on same business line. Verizon Freedom Feature Package 1 is available to customers who purchase Verizon Freedom for Business or Verizon Freedom Basic for Business;Local with Toll on same business line. Verizon Freedom Feature Package 2 is available to business, CustoPAK and CentrexPlus customers with Verizon Freedom for Business or Verizon Freedom Local with Toll on the same line. Other restrictions apply.

DSL Services and discounts provided by Verizon Online. If you remove any qualifying service from package, Business DSL will be billed at standard rate. Acceptance of Verizon Online Terms of Service required. One-time setup fees and $100 early cancellation fee may apply. Service not available to all locations; availability subject to final verification by Verizon Online following order. Offer for Verizon local telephone customers only. Separate local and toll usage charges may apply for dial-up connection. NIC card required (sold separately). Throughput speeds vary and speeds and uninterrupted service not guaranteed. Other terms and restrictions apply.

close window

Verizon Freedom For Business Comparison

Print Email This Page

	Verizon Freedom for Business with DSL	Verizon Freedom for Business	Verizon Freedom Basic for Business, Local with Toll	Verizon Freedom Basic for Business, Local
MonthlyFees	$ 77.95 - $ 272.95	Starting at $ 38.00	Starting at $ 25.00	Starting at $ 15.00
What You'll Get	.20% monthly discount on Verizon Online Business DSL .Includes Verizon Freedom for Business package	Unlimited direct-dialed local, regional and long distance calling for a flat monthly price, plus local line charge	Unlimited direct-dialed local and regional toll calls for a flat monthly rate,plus line charge	Unlimited direct-dialed local calling for a flat monthly rate, plus line charge.
Calling Times	24/7	24/7	24/7	24/7
Qualifying Unlimited Calls	Direct-Dialed	Direct-Dialed	Direct-Dialed Local and Regional Toll calls	Direct-Dialed Local
Local Calling	Unlimited	Unlimited	Unlimited	Unlimited
Regional Calling	Unlimited	Unlimited	Unlimited	Compatible with all regional calling plans.
Domestic LD Calling	Unlimited within the U.S. Includes Guam, Alaska, Hawaii, Puerto Rico, U.S. Virgin islands & Mariana Islands	Unlimited within the U.S. Includes Guam, Alaska, Hawaii, Puerto Rico, U.S. Virgin islands & Mariana Islands	Qualifies for Verizon Block of Time long distance service with 400 minutes of domestic calling each month for an additional flat monthly rate.	Compatible with all long-distance calling plans.
Discount on Verizon Online DSL	Yes	Yes	No	No
Discount on Verizon Wireless	No	Yes	No	No

Service Location

NJ

change location

 Privacy Policy | Site Map | About Verizon

Exhibit SMB-7

Verizon Freedom for Residential Customers (Verizon web page material)

available at:

http://www22.verizon.com/ForYourHome/sas/sas_Freedom.aspx

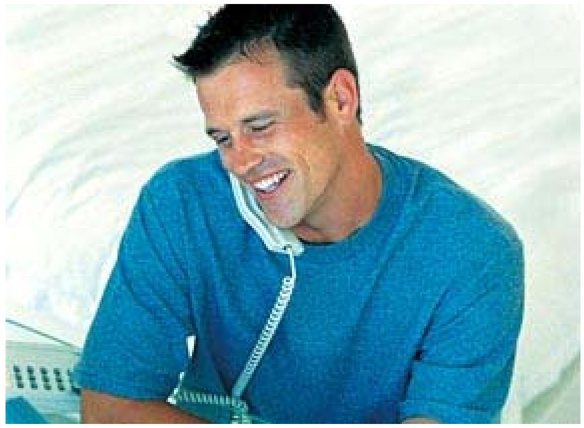
Verizon Freedom

Bundle up and save.

Order a Verizon Freedom package and you'll get...

Unlimited calling nationwide
One low rate and a single bill to pay

You can save even more when you add DSL for high-speed Internet access and DIRECTV® for a variety of entertainment services.



Service Location

New Jersey
Change location

Product Recommender

Find products and services that best meet your needs.
Get started

Resources

- Frequently Asked Questions

Verizon Freedom Packages

	Monthly Fee
Verizon Freedom Unlimited Save more than $240 a year with this package of Verizon services. Includes unlimited local, regional and long distance calling (U.S. only), as well as your choice of three calling features.	$49.95
Verizon Online DSL Internet Service Unlimited, high-speed Internet access with MSN Premium software.	$29.95
DIRECTV ® Service DIRECTV ® TOTAL CHOICE ® Package provides access to over 225 channels using superior satellite technology.	$41.99

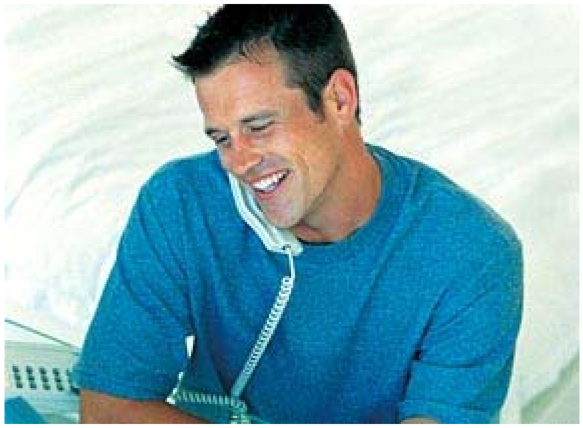
back | view my cart | add to cart

The monthly fee may be higher or lower based upon the plan components you choose and/or your geographic location and do not include any equipment charges, taxes, fees, other surcharges, or long distance usage charges beyond any allotted minutes. The monthly fees are based upon monthly charges for Verizon Freedom Unlimited[sm] for unlimited local, regional toll, and domestic long distance calling; Verizon Online DSL Internet Service and DIRECTV TOTAL CHOICE® with Local Channels package (add $4.99/mo. for separate programming on second and each additional TV).

Verizon Freedom Unlimited

Get your Verizon Freedom Unlimited package with your choice of three calling features.

Combine your local, regional and long distance services - along with three popular calling features - in one convenient package and a single monthly bill. The package saves you more than $240 a year*. Need DSL or DIRECTV® service? No problem. See our available add-ons below.



Service Location

New Jersey
Change location

Product Recommender

Find products and services that best meet your needs.
Get started

Monthly Fee: $49.95

add to cart

What You'll Get | Available Add-ons | Money-Saving Tips

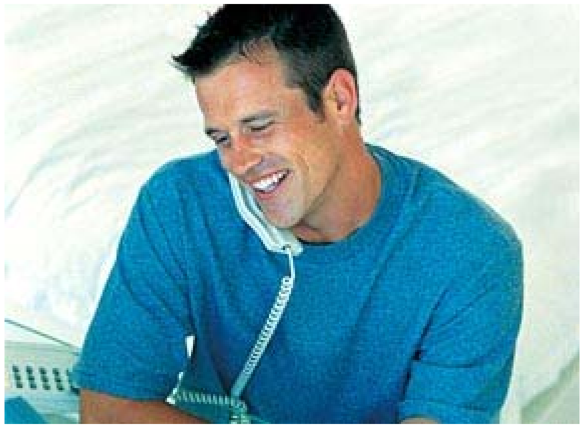
Verizon Freedom Unlimited includes :

- **Unlimited** local, regional toll and long distance calling in the U.S.
- **Choice** of three popular calling features
- **One Bill** for all services
- **Fixed** monthly rate
- **Savings** of more than $240 a year*

back | add to cart

*Savings based on purchasing Verizon Freedom Unlimited package versus purchasing equivalent Verizon long distance services at individual, standard rates. Long distance savings comparison based on 350 minutes of monthly usage on TalkTime 30 Plan. Savings vary by individual and by state. You must select and retain Verizon as your local provider, and Verizon Long Distance for long distance service. Plan includes domestic direct-dialed calls only. Cannot be combined with other discounts or promotions. Billing name and address must be the same for both of your Verizon accounts; all Verizon charges will appear on the same bill. Customers must be authorized to make account changes to all accounts. Customers with a security deposit, credit limit, non-basic block or toll block are not eligible. Universal Service Fee, taxes and other charges apply. Tariffs apply to some services. Available only to residential customers in selected areas. Not all services available on all lines. Additional terms and conditions apply.

Verizon Freedom Unlimited



Get your Verizon Freedom Unlimited package with your choice of three calling features.

Combine your local, regional and long distance services - along with three popular calling features - in one convenient package and a single monthly bill. The package saves you more than $240 a year*. Need DSL or DIRECTV® service? No problem. See our available add-ons below.

Service Location

New Jersey
Change location

Product Recommender

Find products and services that best meet your needs.
Get started

Monthly Fee: $49.95

add to cart

What You'll Get **Available Add-ons** **Money-Saving Tips**

Enhance your Verizon Freedom package with high-speed DSL or digital-quality DIRECTV® service.

DSL includes connection speeds up to 3.0 Mbps for qualifying lines and:

- High-speed Internet access
- Self-install kit
- DSL Modem
- 24/7 live technical support
- 30-day money-back guarantee
- MSN® Premium Internet Software
- 9 e-mail accounts
- 10 MB of Web space

DIRECTV® service provides access to over 225 channels of digital quality entertainment services. With DIRECTV® service you get access to:

- Over 30 premium movie channels
- Professional and college sports Packages
- Local channels+
- Up to 36 Uninterrupted music channels
- Up to 55 Pay Per View options per day
- 24/7 live technical support

+ In select markets, DIRECTV offers local channels. Eligibility based on service address.

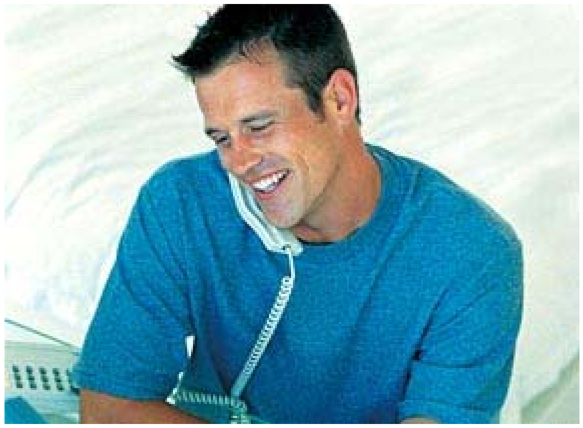
back add to cart

*Savings based on purchasing Verizon Freedom Unlimited package versus purchasing equivalent Verizon long distance services at individual, standard rates. Long distance savings comparison based on 350 minutes of monthly usage on TalkTime 30 Plan. Savings vary by individual and by state. You must select and retain Verizon as your local provider, and Verizon Long Distance for long distance service. Plan includes domestic direct-dialed calls only. Cannot be combined with other discounts or promotions. Billing name and address must be the same for both of your Verizon accounts; all Verizon charges will appear on the same bill. Customers must be authorized to make account changes to all accounts. Customers with a security deposit, credit limit, non-basic block or toll block are not eligible. Universal Service Fee, taxes and other charges apply. Tariffs apply to some services. Available only to residential customers in selected areas. Not all services available on all lines. Additional terms and conditions apply.

Verizon Freedom Unlimited

Get your Verizon Freedom Unlimited package with your choice of three calling features.

Combine your local, regional and long distance services - along with three popular calling features - in one convenient package and a single monthly bill. The package saves you more than $240 a year*. Need DSL or DIRECTV® service? No problem. See our available add-ons below.



Service Location

New Jersey
Change location

Product Recommender

Find products and services that best meet your needs.
Get started

Monthly Fee: $49.95

add to cart

What You'll Get **Available Add-ons** **Money-Saving Tips**

You can save even more on additional Verizon services.

- Combine your Verizon Freedom Unlimited package with DSL, DIRECTV® programming, Dial-up Internet service or ONE-BILL®. Not only will you receive great rates when you get any of these select services with Verizon Freedom Unlimited, you will also receive a $5 monthly discount on your Verizon bill --- a savings of $60 annually.
- Upgrade your package to Verizon Freedom. You'll get discounts on international calls and five popular calling features, including Home Voice Mail, for just $5 more each month.
- Add our International Choice Plan with City Rates or International Choice Plan Unlimited Country to receive Verizon's best international rates - seven days a week, 24 hours a day. You pay just $4 more each month.

back add to cart

*Savings based on purchasing Verizon Freedom Unlimited package versus purchasing equivalent Verizon long distance services at individual, standard rates. Long distance savings comparison based on 350 minutes of monthly usage on TalkTime 30 Plan. Savings vary by individual and by state. You must select and retain Verizon as your local provider, and Verizon Long Distance for long distance service. Plan includes domestic direct-dialed calls only. Cannot be combined with other discounts or promotions. Billing name and address must be the same for both of your Verizon accounts; all Verizon charges will appear on the same bill. Customers must be authorized to make account changes to all accounts. Customers with a security deposit, credit limit, non-basic block or toll block are not eligible. Universal Service Fee, taxes and other charges apply. Tariffs apply to some services. Available only to residential customers in selected areas. Not all services available on all lines. Additional terms and conditions apply.

Search Help Print Close

Verizon Freedom Help

Verizon Freedom is a group of bundled service packages that combines your local, regional/local toll calling, long distance, calling features and DSL or Dial-up internet access services. With your Verizon Freedom package you'll receive a discounted price and a single bill for all services.

Verizon Freedom[sm] is a group of bundled service packages that include savings on Verizon local, regional/local toll calling, calling features, Verizon Long Distance, and Verizon Online Internet access services. Depending on which Verizon Freedom bundle you select, your all-in-one package will include:

- Unlimited local service
- Regional/local toll calling
- Popular calling features
- Verizon Long Distance

Your package may include either or both of the following:

- Verizon Online DSL
- Verizon Online Dial-up Internet

Back to top

Types of Verizon Freedom packages

With the different Verizon Freedom[sm] packages, you will receive Verizon's most popular services packaged together. You will receive a discounted price and a single bill for all services. Verizon offers the following Verizon Freedom packages:

Verizon Freedom—Provides unlimited direct dialed local and regional/local toll calling and unlimited direct dialed long distance, including discounted rates for international calls, plus Verizon's most popular calling features.

Verizon Freedom with DSL or Dial-Up Internet— These packages offer several choices for local, regional/local toll calling and long distance, as well as Verizon's most popular calling features. Additionally, you have the option to bundle together Verizon Online DSL or Verizon Online Dial-Up Internet access services. Your all-in-one package may include:

- **Verizon Online DSL —** Talk on the phone and surf the Web at the same time with our super-fast Internet connection.

- **Verizon Online Dial-Up Internet —** Access the Internet with dial-up service from Verizon Online. You can choose between two plans — Unlimited access or Standard access (150 hours per month).

Back to top

Eligibility for Verizon Freedom

To be eligible for a Verizon Freedom[sm] plan you must select and retain Verizon as your local provider and Verizon Long Distance for long distance service. Depending on which plan you choose, you may also select Verizon Online for DSL or Dial-Up Internet. If you drop your local or Long Distance products, your DSL discount no longer applies.

In addition to selecting one of the qualifying plans, you must:

- Have one billing name and address for each Verizon Freedom[sm] enrollment.
- Be authorized to make account changes to all accounts.
- Be current on your account at enrollment and have a good payment history.
- Have all services billed to your local phone bill.

Back to top

Verizon Freedom on more than one phone line

Verizon Freedom[sm] packages are available for a monthly charge per line.

Back to top

Verizon Freedom billing

Verizon Freedom[sm] are packaged service plans. All services are combined and billed to your local phone bill.

Back to top

Verizon Freedom bill

The Verizon Freedom[sm] bill shows a summary page of total charges for local, regional/local toll, and long distance services, plus any other Verizon service included in your Verizon Freedom package (e.g. DSL, Internet) plus any other charges that currently appear on your local bill.

Back to top

close print

Exhibit SMB-8

MCI Residential Phone Service (MCI web page material)

available at:

http://consumer.mci.com/index.jsp

Home

PRODUCTS | CUSTOMER SERVICE | MANAGE MY ACCOUNT | ABOUT MCI

Consumer

- Consumer Home
- The Neighborhood Calling Packages
- Local & Long Distance Plans
- High Speed Internet
- International Plans
- Rewards Programs
- Prepaid Calling Cards
- All Consumer Products
- Manage My Account
- Check Voicemail
- Customer Service
- Productos en Español

Featured Offer

The Neighborhood built by MCI

Get 2 months **FREE** when you join The Neighborhood. Receive your first month free, plus another month free after your one-year anniversary.

Learn more

The Neighborhood Calling Packages

The Neighborhood
Local & Long Distance together. Customize a plan to meet your needs.

The Neighborhood with High Speed Internet
Local, Long Distance and Internet together.

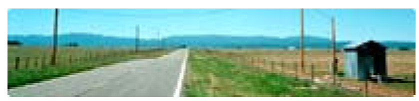
View all

Long Distance Plans

MCI Net Value
4¢ all day, any day.

Nationwide 200 Plus
200 domestic long distance minutes for $10.99 a month.

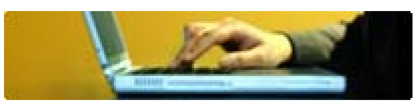
View all



High Speed Internet

The Neighborhood with High Speed Internet
A lightning-fast, always-on connection plus unlimited local & long distance calling.

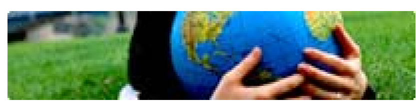
View all



International Plans

MCI Global Connection
Low international rates all day.

View all



Need help deciding? Compare plans

MANAGE MY ACCOUNT

Log in to
Online Account Manager:

Username:

Password:

LOG IN

Forget Log In info?

Create an Account

Need help deciding?

Not sure which plan is right for you? Compare the features and benefits of all our plans side-by-side.

Compare plans

Two Months FREE!

Sign up for a Neighborhood plan and get 2 months **FREE**.

Learn More

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Exhibit SMB-9

MCI Small and Medium Business Service (MCI web page material)

available at:

http://business.mci.com/index.htm

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- Small and Medium Business Home
- Voice Services
- Internet Access
- Voice & Internet Solutions
- Security Solutions
- Conferencing Solutions
- All Small and Medium Business Products
- Manage My Account
- Check Voicemail
- Customer Service

Voice & Internet Solutions

MCI Advantage

Voice and Internet on a single connection via MCI's IP network.

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MCI Business Complete

Unlimited local, long distance and high speed Internet for one low monthly price.

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Access your account information 24 hours a day.

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Need help deciding?

Our Product Recommender will point you toward the solution that fits your needs.

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Comparing products side-by-side shows you features and benefits at a glance.

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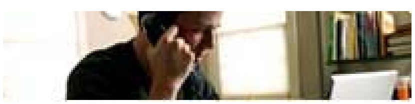
Present, share and collaborate without ever leaving your PC.

Audio Conferencing

Bring your team or customers together by phone at your convenience.

View all Conferencing Solutions



Security Solutions

Firewall Protection

A scalable, high performance barrier against intruders.

Authentication Services

Password protection to safeguard your network.

Anti-Virus & Anti-Spam Protection

Block viruses and spam before they reach your network.

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