

BEFORE THE UTAH PUBLIC SERVICE COMMISSION

In the Matter of the Petition of)
MCImetro Access Transmission Services, Inc.) DOCKET NO. 96-095-02
for Authority to Compete as a)
Telecommunications Corporation and to)
offer Local Exchange for)
Public Telecommunications Services)

Direct Testimony of Michael Hydock

On Behalf of MCI Telecommunications Corporation

December 10, 1996

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1 **Q. Please state your name and address?**

2 A. Michael Hydock. My business address is 707 - 17th Street, Denver, Colorado, 80202.
3 My phone number is (303) 291-6459.

4 **Q. By whom are you employed?**

5 A. MCI Telecommunications Corporation (“MCIT”)

6 **Q. What is your current position?**

7 A. I am the Local Competition Manager for MCI metro Access Transmission Services, Inc.
8 (“MCI metro”) for the Western Region which includes the 14-state area served by U S
9 West Communications, Inc., (“U S West”).

10 **Q. How long have you held that position?**

11 A. Since November 1995.

12 **Q. Please describe the scope of responsibilities in your current position.**

13 A. I am responsible for seeking local exchange authority for MCI metro in the Western
14 Region including the 14 U S West states. I monitor all activities of MCI metro
15 throughout the United States, particularly its local exchange telecommunications
16 services. I review financial documents prepared by and for MCI Communications
17 Corporation (“MCIC”), MCI Telecommunications Corporation (“MCIT”) and
18 MCI metro. I coordinate regulatory activities for MCI metro and monitor regulatory

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1 compliance by MCImetro in the Western Region. I help develop policies for MCImetro
2 and implement those policies.

3 **Q. Please describe your educational background and employment history.**

4 A. Attached to this testimony as Exhibit 1 is my biography which describes my educational
5 background and relevant employment history.

6 **Q. Have you ever presented testimony on behalf of MCImetro before a state public utility
7 commission or similar body?**

8 A. Yes.

9 **Q. In your capacity as local competition manager, have you prepared or caused to be
10 prepared the application of MCImetro for a certificate of public convenience and
11 necessity to provide local exchange telecommunications that was filed with this
12 Commission on October 15, 1996?**

13 A. Yes.

14 **Q. Did you review the application before it was filed with the Commission?**

15 A. Yes.

16 **Q. Please state the full name of the applicant?**

17 A. MCImetro Access Transmission Services, Inc.

18 **Q. What authority does MCImetro seek from the Commission?**

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1 A. Specifically, MCImetro petitions the Commission for authority to compete as a
2 telecommunications corporation (as defined at Utah Code Ann. Section 54-8b-2(7)) and
3 to compete in providing telecommunications services (as defined at Utah Code Ann.
4 Section 54-8b-(6)) to provide local exchange telecommunications services within the
5 same geographic operating area as that of U S West.

6 **Q. How will MCImetro provide local exchange telecommunications services?**

7 A. Initially, MCImetro will provide services through the resale of local exchange
8 telecommunication services of the incumbent or other competitive local exchange
9 carriers. However, as the necessary facilities are installed or acquired, MCImetro plans
10 to offer the following categories of local service:

11 (a) Local Exchange Service - a service that enables customers to
12 originate and terminate local calls to other customers served by
13 MCImetro as well as to customers of other local exchange
14 carriers. MCImetro's local exchange service will also provide
15 customers the ability to access their choice of interexchange
16 carriers.

17
18 (b) Exchange Access Service - switched access services to interexchange
19 carriers to permit them to originate and terminate interstate and intrastate
20 calls to customers of MCImetro.

21
22 The specific types of services MCImetro plans to offer include, but are not limited to:

23 Two-Way Lines/Trunks, Direct Inward/Outward Dialing Options, Local Calling,

24 Operator-Assisted Services, Directory Assistance, Dual Party Relay and Other Special

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1 Needs Services, and 911 Emergency Services. MCImetro may also offer local services
2 by utilizing the switching and transport capacity of other existing telecommunications
3 providers pursuant to negotiated or tariffed arrangements.

4 MCImetro will provide all customers with access to emergency services
5 including 911 and E911 emergency services where available, and will cooperate with
6 existing telecommunications companies, and other affected agencies and organizations,
7 to arrange for the necessary interconnections to enable efficient completion of these
8 calls.

9 MCImetro's local network will be comprised of a state-of-the-art
10 telecommunications network that will serve as a platform for providing a full range of
11 local services. The company's network will consist of the following components:

12 (a) high reliability fiber rings using synchronous optical networks ("SONET")
13 technology; (b) digital switches, and (c) special application computers, software and
14 databases.

15 MCImetro plans to install in late 1997 or early 1998 the most advanced digital
16 switches along the SONET rings in order to facilitate the interconnection of customers
17 to the rest of the public switched telephone network ("PSTN"). MCImetro may use
18 state-of-the-art switches from Northern Telecom, Siemens or other manufacturers
19 depending on the actual network design and capacity and costs. MCImetro expects to

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1 rely to a large degree on the newer "remote" switching technology in addition to host
2 switching technology. Both types of switches contain fully redundant hardware and
3 software that will provide maximum reliability and availability to all customers.

4 Service to end users will be provided by means of connections from Applicant's
5 network to the end-user's facilities, where such connections exist or can be timely and
6 economically constructed. Applicant will use other facilities when its own network
7 cannot be feasibly connected to the customer's location, and where the use of such
8 alternative facilities is technically and economically feasible.

9 MCImetro plans to use the interconnection services and unbundled elements of
10 U S West's network if economically feasible to provide services to end users. As I
11 mentioned earlier, MCImetro will also likely resell services of U S West and other LECs
12 to provide services to end users, particularly residential users. It is through resale and
13 value-added services, that MCImetro anticipates attracting small business users and
14 residential users who are not sufficiently near to MCImetro's SONET fiber rings to be
15 connected to MCImetro's facilities.

16 **Q. In what form is the MCImetro organized to transact business?**

17 A. MCImetro is a corporation.

18 **Q. Where is MCImetro incorporated?**

19 A. It was incorporated in the State of Delaware on February 9, 1990.

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1 **Q. Where is its principal office located?**

2 A. The principal office for MCImetro is located at 8521 Leesburg Pike, Vienna, VA 22182.

3 **Q. Is MCImetro properly authorized to transact business in the state of Utah?**

4 A. Yes. MCImetro registered with the Utah Division of Corporations and Commercial
5 Code as a foreign corporation on May 21, 1990.

6 **Q. Please direct your attention to Exhibit A in the application of MCImetro. What is that**
7 **document?**

8 A. Exhibit 1 to the application is a list of selected biographies of officers and directors of
9 MCImetro.

10 **Q. Is the information contained on that list still accurate?**

11 A. Yes, it is. I have attached to my testimony a complete list of the officers and directors
12 as Exhibit MCI-1.2.

13 **Q. Is MCImetro affiliated with any other company?**

14 A. MCImetro Access Transmission Services, Inc. is a wholly-owned subsidiary of
15 MCImetro, Inc., which in turn is a wholly-owned subsidiary of MCIT. MCIT is an
16 interexchange carrier authorized to provide long distance service in Utah and across the
17 United States. MCIT is a wholly-owned subsidiary of MCI Communications
18 Corporation (“MCIC”).

19 **Q. What are the future plans of MCI Communications Corporation?**

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1 **A.** On November 3, 1996, MCIC and British Telecommunications announced that they
2 would merge their companies to form Concert Communications PLC. When the merger
3 is completed in the fall of 1997, British Telecommunications will pay more than \$22
4 billion to acquire the stock of MCIC. Concert will be incorporated in Great Britain with
5 its headquarters in London and Washington, D.C. The resulting company will have
6 worldwide sales of \$42 billion in 72 countries, market value of \$56 billion and 183,000
7 employees.

8 **Q.** **Does this proposed merger require approval from any governmental agencies?**

9 **A.** The merger will require approval of the U.S. Federal Communications Commission, the
10 U.S. Department of Justice, certain states, UK and European Union government bodies
11 and shareholders of both BT and MCI. MCI and BT filed their application seeking
12 approval of the merger with the FCC on December 3, 1996.

13 **Q.** **How will the merger effect MCI metro's local plans?**

14 **A.** MCI metro's 1997 business plan, which includes a switch for the Salt Lake City market,
15 has been previously announced, and is not likely to change since the merger is not
16 expected to close until fall 1997. While capital investment for 1997 will occur as
17 planned before the announcement of the merger, it is possible that MCI will increase
18 expenditures on marketing and for services provided by its existing networks.

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1 After the merger, MCI will continue its aggressive plans to build and expand
2 local networks in a growing number of cities to serve business and residential customers.

3
4 Especially while the build-out of MCI's network is underway and particularly in the
5 markets for consumers and small businesses, MCI will need to supplement
6 facilities-based service with resale. As the mass market "footprint" is established in local
7 markets, MCI will be able to expand its existing networks to meet the demands of its
8 growing customer base.

9 In 1998 and beyond, the merger will provide MCImetro the financial resources
10 to intensify its marketing efforts beyond those which might otherwise have been
11 possible. The precise pace of MCI's expenditures and the resulting development of local
12 competition will depend in significant part on regulatory decisions that will be made
13 over the next several months -- for example, decisions about the wholesale discount for
14 resold services and the price of unbundled local loops.

15 **Q. Does MCImetro hold any certificate or other operating authority within Utah from this**
16 **Commission?**

17 A. No.

18 **Q. Does MCIT hold any certificates or other operating authority within the State of Utah**
19 **?**

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1 A. No. MCIT operates as a reseller in Utah and is no longer required by statute to hold
2 a certificate.

3 **Q. Does MCImetro, Inc., or MCIC hold any certificates or operating authority from this**
4 **Commission?**

5 A. No.

6 **Q. How will MCImetro be capitalized?**

7 A. As stated earlier, MCImetro is ultimately a wholly-owned subsidiary of MCIC. MCIC
8 and MCIT are capitalizing MCImetro. They have provided MCImetro's start-up costs
9 and it will continue to provide financial support to MCImetro so long as MCImetro
10 needs the necessary capital to build networks, provide other facilities, and to generally
11 provide telecommunications services in Utah and is otherwise not self-sustaining.
12 Exhibits 7, 8 and 9 of MCImetro's response to Staff's First Data Requests demonstrate
13 the financial capabilities of MCIC and MCIT.

14 **Q. Please direct your attention to Exhibit 7 of MCImetro's response to Staff's First Data**
15 **Request. Would you identify that document?**

16 A. That document is a copy of MCIC's annual report to stockholders for 1995.

17 **Q. Since that document was prepared, have there been any material changes or**
18 **developments which would adversely change or alter the company's balance sheet,**
19 **income statement, or statement of retained earnings as reflected in Exhibit D?**

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1 A. No. MCIC continues to show strong financial growth. For the 3rd Quarter of 1996, MCI
2 posted revenue of \$4.69 billion, an increase of \$823 million or 21 percent over
3 the year-ago period. Operating income increased 25 percent to \$581 million, from
4 \$466 million a year ago in the same period. Net income grew by \$29 million to \$304
5 million while earnings per share jumped 10 percent to 44 cents from 40 cents.

6 **Q. Please direct your attention to Exhibits 8 and 9 of MCImetro's response. Would you**
7 **identify those documents?**

8 A. They are copies of the most recent Form 10-K and Form 10-Q that were filed by MCIC
9 with the Securities and Exchange Commission.

10 **Q. Since those documents were prepared, have there been any material changes or**
11 **developments, other than the proposed merger with British Telecommunications, which**
12 **would adversely change or alter the statements made in the 10K or 10Q?**

13 A. No.

14 **Q. Are Exhibits 7, 8 and 9 available to the public?**

15 A. Yes.

16 **Q. Please describe how MCImetro possesses the financial qualifications to provide local**
17 **exchange services within the state of Utah?**

18 A. MCImetro has the financial resources necessary to provide the services sought by this
19 application as stated earlier. MCImetro's ultimate parent is MCIC, a multi-national

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1 corporation with total 1995 year-end assets and revenues, including subsidiary
2 operations of \$19.3 billion and \$15.3 billion respectively. MCIC will provide all funds
3 necessary for MCImetro's proposed services. The ability of MCImetro and its affiliates
4 to meet its financial requirements is demonstrated by the financial documents discussed
5 above.

6 Once the merger with British Telecommunications is complete, MCIC will continue
7 to meet the financial requirements of MCImetro.

8 **Q. Please describe MCImetro's managerial and technical qualifications to provide local**
9 **exchange services within the state of Utah?**

10 A. MCImetro was organized more than three years ago. MCImetro operates 61 local city
11 networks in 34 cities across the United States. It has installed and is operating 14 Class
12 5 switches. These switches are either Northern Telecom or Siemens switches. By the
13 end of 1996, MCImetro intends to have installed a total of 24 Class 5 local switches. It
14 has 2,769 installed route miles and right-of-way mileage of 4,114 miles. The
15 qualifications of MCImetro's key management officials responsible for engineering are
16 summarized in Exhibit 1 of the application. In addition, MCImetro and its affiliates have
17 substantial experience in managing the provision of telecommunication services around
18 the world.

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1 **Q. Does MCImetro currently provide local exchange service in any other jurisdiction in**
2 **the United States? If so, where?**

3 A. MCImetro is certificated or has received regulatory authority as a competitive local
4 exchange provider in the following 22 states: Washington, Wisconsin, Michigan, New
5 York, Massachusetts, Maryland, Tennessee, Ohio, Illinois, Connecticut, Florida,
6 Pennsylvania, Georgia, California, Oregon, North Carolina, Virginia, New Jersey,
7 Delaware, Indiana, Colorado and Minnesota.

8 MCImetro is currently providing service through its Class 5 switches in the
9 following cities Baltimore, Boston, Chicago, Detroit, Philadelphia, Pittsburgh, Seattle,
10 New York, Hartford, Milwaukee, Cleveland, Atlanta, Portland and Orlando.

11 **Q. In each of the states where MCI has received approval, did the appropriate regulatory**
12 **body review the managerial, technical and financial qualifications of MCImetro before**
13 **granting authority?**

14 A. Yes. Each state commission reviewed and approved of MCImetro's financial, technical
15 and managerial qualifications.

16 **Q. Besides this proceeding, does MCImetro have applications for local authority pending**
17 **in any other states?**

18 A. Applications are pending in Texas, Arizona and Missouri.

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1 **Q. Have any of MCImetro’s applications for local authority been rejected for any reason,**
2 **including, specifically, technical, financial or managerial capabilities?**

3 A. No.

4 **Q. What accounting system is used by MCImetro for the provision of telecommunications**
5 **services?**

6 A. Like MCIC and MCIT, MCImetro uses Generally Accepted Accounting Principles, or
7 what is commonly known as “GAAP” as its accounting system for the provision of
8 telecommunication services. I understand that Utah requires the use of the Uniform
9 System of Accounts, however, MCImetro and Staff have agreed to a stipulation that
10 would exempt MCImetro from using the USOA.

11 **Q. Please describe the local calling areas in Utah which MCImetro will use to provide**
12 **local exchange services?**

13 A. MCImetro intends to use the same local calling areas as prescribed by the Commission
14 for all incumbent local exchange carriers that originate or terminate outside MCImetro’s
15 proposed operating area. Metro will initially provide its service in those areas served by
16 US West within LATA 660.

17 **Q. Has MCImetro provided local exchange service within the State of Utah since filing its**
18 **application on October 15, 1996?**

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1 A. No. MCImetro has not provided any local exchange services within the State of Utah
2 since filing this application.

3 **Q. Will MCImetro begin offering local exchange service prior to the Commission reaching**
4 **a decision on Metro's application and the issuance of a Certificate of Public**
5 **Convenience and Necessity?**

6 A. No. MCImetro will not provide any local exchange services within the State of Utah
7 until such time that the Commission issues a Certificate of Public Convenience and
8 Necessity and then subject to any conditions or requirements attached to the CPCN or
9 the Commission's order.

10 **Q. Are there any other requirements that MCImetro must meet before it can provide local**
11 **exchange services once a CPCN is issued?**

12 A. MCImetro will not begin providing local service within the State of Utah after receiving
13 its CPCN until it obtains authority, files the applicable tariffs or price lists with the
14 Commission and is in compliance with all other applicable Commission rules or orders.

15 **Q. You testified earlier that it was at your direction that MCImetro's application for local**
16 **authority was prepared. Since that application was prepared, have there been any**
17 **changes so that its contents are no longer true, accurate or correct?**

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1 A. Other than those changes required by the proposed merger with British
2 Telecommunications and discussed earlier, to the best of my knowledge, the contents
3 of MCImetro's application remain true, accurate and correct.

4 **Q. What are MCImetro's existing operations, general service and operating areas in other**
5 **jurisdictions?**

6 A. MCImetro provides a wide array of private line and competitive access provider services
7 across the United States. In addition, it also provides local exchange services in those
8 states mentioned earlier where it has been granted authority.

9 **Q. What will be MCImetro's policy concerning the provision of local exchange**
10 **telecommunications services within its operating area be concerning provision of**
11 **services pursuant to its tariff or price lists.**

12 A. MCImetro will not unjustly discriminate among and between consumers in the provision
13 of local exchange telecommunications services.

14 **Q. Will MCImetro provide telecommunication services within the State of Utah in**
15 **compliance with applicable Commission rules and regulations?**

16 A. Yes.

17 **Q. Does MCImetro believe that granting this application is in the public interest?**

18 A. Yes.

19 **Q. What is the basis for this belief?**

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1 A. Last year, the Utah Legislature passed the 1995 Telecommunications Reform Act
2 ("Utah Act"). The purpose of the Act was to open the local exchange
3 telecommunications market to competition. Earlier this year, the federal
4 Telecommunications Act of 1996 ("Federal Act") was passed to promote competition
5 across the nation in the local exchange telecommunications market. Approval of
6 MCImetro's Request for Agency Action is in the public interest and in compliance with
7 the objectives of the Utah
8 and Federal acts. Of all the companies petitioning to enter the local market, MCImetro
9 is, in my opinion, uniquely qualified to meet and exceed the policy considerations.
10 As a subsidiary of MCIC, MCImetro will bring to the citizens of Utah a history of
11 competition that has resulted in lower prices and improved service and quality. Since
12 MCI entered the long distance market, competition has lowered long distance prices by
13 66 percent relative to the general price level.¹ In addition to lower prices, long distance
14 customers have reaped the benefits from improved technical quality including the virtual
15 elimination of background noise, cross-talk, echoes and dropped calls. Competition has
16 also spawned new products and increased investment in the nation's telecommunications
17 infrastructure.

1 Dr. Robert Hall, Long Distance: Public Benefits from Increased Competition,
Applied Economics Partners, October 1993, updated March 1994.

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1 For nearly a century, the citizens of Utah have received local exchange service
2 from monopoly carriers. The largest local exchange carrier is US West. In order to
3 examine the detrimental effects of a monopoly on the marketplace, this Commission
4 need not look any further than the numerous proceedings in which US West has been
5 involved. One example is US West's inability to connect many rural customers in a
6 timely fashion. As a result, US West is now required to offer cellular service and
7 subsidies to those customers it does not provide service to within acceptable time limits.
8 In a competitive marketplace, the customer would have the opportunity to select a new
9 local exchange carrier that could meet the customer's needs. Faced with losing
10 customers, the incumbent local exchange carrier will be required to improve service and
11 quality in order to compete. The result is that customer's derive the benefits of
12 competition through increased prices and service.

13 In addition to providing customers with diversity in the supply of existing and
14 future telecommunications services, approval of MCImetro's application will help
15 ensure that customers pay only reasonable charges for local exchange
16 telecommunications services. As competition grows, the local exchange carriers will not
17 be able to hide the inefficiencies of their monopolistic markets by passing those costs to
18 customers. Instead, the incumbent carrier will have to seek greater efficiencies in their

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1 networks as more efficient competitors provide services at a lower cost. MCImetro is
2 committed to passing those savings on to its customers.

3 By granting this application, the Commission will open the door for MCImetro
4 to provide the citizens of Utah the benefits resulting from competition, such as choice
5 of providers, more efficient and diverse telecommunications infrastructure, higher
6 quality, innovative services and competitive prices. These results of MCImetro's policy
7 show that MCImetro's application not only meets but exceeds the public policy issues
8 set out by the Utah Legislature.

9 When MCIT began providing long distance telephone service after divestiture,
10 it began with few facilities, a route between Chicago and St. Louis, and a resale strategy
11 which allowed it to attract customers from AT&T. In 1984, AT&T enjoyed nearly 100
12 percent of what was known as the interLATA toll market. In 1996, AT&T controls
13 approximately 59 percent of the toll market, MCI has approximately 20 percent, Sprint
14 has approximately 10 percent, and other carriers and resellers have the balance of the
15 market. There are hundreds of providers of interexchange toll services.

16 Today MCIT is considered a facilities-based toll provider, which has constructed
17 thousands of miles of state-of-the-art network and invested billions of dollars in its
18 network as a result of its ability to successfully compete in the long distance market.

1 MCImetro has the same expectations and will meet the needs of all Utah
2 consumers as we go forward into the 21st century.

3 **Q. Have you had an opportunity to review the proposed stipulations reached by**
4 **MCImetro, the State of Utah Department of Commerce, Division of Public Utilities**
5 **and Committee of Consumer Service (“Committee”)?**

6 **A. Yes.**

7 **Q. Are those Stipulations agreeable to MCImetro?**

8 **A. Yes.**

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

10 **A. Yes.**

11

12

13

1 **BIOGRAPHY OF MICHAEL HYDOCK**

2 **EDUCATION**

3
4 BA, with Distinction, Economics, Rutgers College, 1975

5
6 MA, Georgetown University, 1977

7
8 27 Credit Hours of Post-Masters Course work
9 Ph.D. Comprehensive Exams Passed, 1978

10
11
12 **EMPLOYMENT BACKGROUND**

13
14 1981 - 1990 AT&T Communications, Inc.

15
16 Fields of Experience:

17
18 1. Performed regulatory analysis of access charges in conjunction with state and federal access
19 charge filings by the Local Exchange Carriers. Provided estimates of AT&T access expense,
20 analysis of LEC demand data and its impact on LEC filed rates, and provided analysis of LEC
21 information filed as part of federal access charge filings, including investment and expense
22 accounts found in the LEC USOA information.

23
24 2. Provided short and long run traffic forecasts to support the AT&T network construction
25 program. Provided support for both long haul trunk and exchange access forecasting needs.
26 Managed a group of economists that built sophisticated regression and other statistical models
27 to geographically forecast AT&T demand. Worked with network engineers to ensure forecasts
28 were used correctly and were suitable for input into network planning and forecasting models.

29
30 3. Within the finance department, managed a group of analysts that performed regional
31 accounting and financial regulatory reporting of regional income statements. Provided support
32 to file monthly income statements with state regulatory bodies. Provided a theoretical correct
33 and consistent method of determining accruals for major income statement accounts.
34 Familiarity with AT&T accounting and USOA accounting schemes.

35
36
37 1990 - Present MCI Communications, Inc.

1 Fields of Experience

2
3 1. Employed by MCI's federal regulatory analysis group. Provided economic and financial
4 support for regulatory work efforts. Responsible for the financial and economic review of LEC
5 access tariff filings and other docketed material before the FCC. Significant review of USOA
6 accounts through the Automated Reporting Management Information System (ARMIS) of the
7 FCC. Reviewed investment and expense data to analyze LEC access tariff filings, attempts by
8 LECs to recover SFAS-106 costs, and other similar exercises.

9
10 2. Within the Business Analysis group, performed financial and economic analysis of the long
11 distance and local exchange marketplace. Reviewed competitive issues, analyzed new lines of
12 business, and performed profitability analysis using MCI accounting data and other sources of
13 external information. Worked to develop the initial MCI metro business plans, using a net
14 present value analysis of market potentials. Used publicly available LEC financial information
15 and other sources of information to build planning models.

16
17 3. Employed by MCI's state regulatory and public policy group. Provided economic and
18 financial support for regulatory work efforts. Responsible for the financial and economic
19 review of competitive issues relating to MCI's entrance into the local marketplace. Responsible
20 for review of LEC tariff filings and other docketed material before state commissions.
21 Significant review of USOA accounts, cost support and other information filed by local
22 exchange carriers.