VII. ACCESS CHARGE REDUCTIONS AND LOCAL RATES

ILECs seem to favor some access charge reductions only if the reductions are made in the context of a "rebalancing" of local rates. Rebalancing is necessary from an economic perspective only to the extent that there are local rates that are below cost. There is no question that rates are below cost in certain areas and for certain services. It is less clear, however, that the interstate jurisdiction is subsidizing the intrastate jurisdiction. For example, a New York Public Service Staff Report recently found that basic service rates in New York State are not subsidized.[43] The conclusion is that access charges can be reduced to cost without any immediate consequences on universal service or on the economic viability of ILECs.[44] To the extent universal service funding is required from the interstate jurisdiction, the proper way to do it is through a competitively neutral universal service fund.

---

[43] Stein Recommended Decision, *supra.*, p. 12.

[44] ILECs are economically viable to the extent that forward-looking revenues exceed forward-looking costs.

VIII. SUMMARY AND CONCLUSIONS

It is clear that the assumptions underlying the Commission's decision to rely on market forces rather than a regulatory solution to high access charges was premature. Competition does not exist today to any meaningful extent, and is not likely to grow to the level that would result in reductions of access charges to cost in the foreseeable future, even under the most optimistic assumptions.

I declare, under penalty of perjury, that the foregoing is true and correct. Executed on May 5, 1998.

A. Daniel Kelley

Daniel Kelley

PROFESSIONAL EXPERIENCE:

Senior Vice President, HAI Consulting, Inc., Boulder Colorado (current position).

Conducting economic and applied policy analysis of domestic and international telecommunications public policy and business issues. Recent projects have included advising Central and Eastern European Governments on privatization and competition matters, assisting a private client with entry into the long distance market in Mexico, analyzing competitive conditions in cellular radio markets, analyzing the economics of cable television regulation, analyzing the prospects for local competition and measuring the economic cost of local service.

Director of Regulatory Policy, MCI Communications Corporation, 1984-1990.

Responsible for developing and implementing MCI's public policy positions on issues such as dominant carrier regulation, Open Network Architecture, accounting separations and Bell Operating Company line of business restrictions. Also managed an interdisciplinary group of economists, engineers and lawyers engaged in analyzing AT&T and local telephone company tariffs.

Senior Economist and Project Manager, ICF Incorporated, 1982-1984.

Telecommunications and antitrust projects included: forecasting long distance telephone rates; analysis of the competitive effects of AT&T's long distance rate structures; a study of optimal firm size for cellular radio markets; analysis of the FCC's Financial Interest and Syndication Rules, and competitive analysis of mergers and acquisitions in a variety of industries.

Senior Economist, Federal Communications Commission, 1979-1982.

Served as Special Assistant to the Chairman during 1980-1981. Advised the Chairman on proposed regulatory changes in the broadcasting, cable television and telephone industries; analyzed legislation and drafted Congressional testimony. Coordinated Bureau and Office efforts on major common carrier matters such as the Second Computer Inquiry and the Competitive Carrier Rulemaking. Also held Senior Economist positions in the Office of Plans and Policy and the Common Carrier Bureau.

Staff Economist, U.S. Department of Justice, 1972-1979.

Analyzed proposals for restructuring the Bell System as a member of the economic staff of U.S. v. AT&T; investigated the competitive effects of mergers and business practices in a wide variety of industries.

EDUCATION:

1976	Ph.D. in Economics	University of Oregon
1971	M.A. in Economics	University of Oregon
1969	B.A. in Economics	University of Colorado

PUBLICATIONS AND COMPLETED RESEARCH:

"Cable and Wireless Alternatives to Residential Local Exchange Service," Berkeley Conference on Convergence and Digital Technology (1997), with Alan J. Boyer and David M. Nugent.

"A General Approach to Local Exchange Carrier Pricing and Interconnection Issues," Telecommunications Policy Research Conference, (1992), with Robert A. Mercer.

"Gigabit Networks: Is Access a Problem?" IEEE Gigabit Networking Workshop (1992).

"Advances in Network Technology" in Barry Cole, ed., After the Break-Up: Assessing the New Post-AT&T Divestiture Era (1991).

"Alternatives to Rate of Return Regulation: Deregulation or Reform?" in Alternatives to Rate Base Regulation in the Telecommunications Industry, NARUC (1988).

"AT&T Optional Calling Plans: Promotional or Predatory" in Harry M. Trebing, ed., Impact of Deregulation and Market Forces on Public Utilities: The Future Role of Regulation (1985).

"The Economics of Copyright Controversies in Communications" in Vincent Mosco, ed., Policy Research in Telecommunications (1984).

"Deregulation After Divestiture: The Effect of the AT&T Settlement on Competition," FCC, OPP Working Paper No. 8 (1982).

"The Transition to Structural Telecommunications Regulation," in Harry M. Trebing, ed., New Challenges for the 1980's (1982), with Charles D. Ferris.

"Social Objectives and Competition in Common Carrier Communications: Incompatible or Inseparable?" in Harry M. Trebing ed., Communications and Energy in Transition (1981), with Nina W. Cornell and Peter R. Greenhalgh.

"An Empirical Survey of Price Fixing Conspiracies," Journal of Law and Economics (1974), with George A. Hay. Reprinted in Siegfried and Calvari, ed., Economic Analysis and Antitrust Law (1978) and the Journal of Reprints for Antitrust Law and Economics (1980).

TESTIMONY:

Federal Communications Commission, Application of Cellular Communications of Cincinnati, July 25, 1983 (with Robert J. Reynolds): Optimum firm size in the cellular radio market

Maryland Public Service Commission, Case No. 0450-Phase II, May 31, 1983: Access charge implementation issues

New York Public Service Commission, Case No. 28425, June 1983: Access charge implementation issues

Florida Public Service Commission, Docket No. 820537-TP, June 30, 1983, November 4, 1983, April 9, 1984, June 4, 1984, September 7, 1984, October 25, 1984 and August 15, 1985: Access charge implementation issues

Pennsylvania Public Utility Commission, Docket No. R-832, August 5, 1983: Pennsylvania Bell Rate Case

New Jersey Board of Public Utilities, Docket No. 83-11, February 20, 1984: Access charge implementation issues

New York Public Service Commission, Case 88-C-102, March 2, 1990: Alternative Operator Service Issues

California Public Service Commission, A.90-07-015, July 10, 1990: AT&T Deregulation

New York Public Service Commission, Case 28425, October 8, 1990: IntraLATA Dial 1 Competition

Massachusetts Department of Public Utilities, DPU 90-133, October 17, 1990: AT&T Deregulation

Georgia Public Service Commission, 3905-U, November 16, 1990: Incentive Regulation

California Public Service Commission, I-87-11-033, September 23, 1991: IntraLATA Competition

Georgia Public Service Commission, Docket No. 3987-U, January 31, 1992: Cross-Subsidy

Colorado Public Utilities Commission, Docket No. 92R-050T, August 24, 1992: Collocation

Connecticut Department of Public Utility Control, Docket No. 9106-10-06, September 25, 1992: Infrastructure

Maryland Public Service Commission, Case No. 8584, Phase II, July 21, 1995: Local Competition.

Connecticut Department of Public Utility Control, Docket No. 95-06-17, September 8, 1995: Local Competition .

Federal-State Joint Board on Universal Service, CC Docket No. 96-45, June 5, 1996: Cost Modeling.

Colorado Public Utilities Commission, Docket No. 96A-287T, September 6, 1996: Arbitration.

Oregon Public Service Commission, Dockets ARB 3 & 6, October 14, 1996: Arbitration.

Hawaii Public Utilities Commission, October 17, 1996: Arbitration.

Michigan Public Service Commission, October 24, 1996: Arbitration.

New York Public Service Commission, Case No. 28425, May 9, 1997: Access charges.

Colorado Public Utilities Commission, Docket No. 97F-175T, July 18, 1997: Access Charges.

Utah Public Service Commission, Docket No. 97-049-08, October 2, 1997: Access charges.

Connecticut Department of Public Utility Control, Docket No. 96-04-07, February 10, 1998: Access Charges.

APPENDIX C:
RECENT QUOTES ON
THE LACK OF LOCAL COMPETITION

"We already have competition in long distance, but there is no competition for local residential phone service and that's where most people spend the most money and would welcome lower prices."

-Martin Cohen, Illinois Citizens' Utility Board, Chicago Tribune 1/3/98

"...the fact remains that in this country, consumers do not have a choice in residential telephone service..."

-FCC Chairman William Kennard, Reuters 1/2/98

"We believe what the Bell operating companies are trying to do now is go back on their deal with the American people, go back on their deal with Congress....the Bell operating companies came in and asked for this legislation [the telecom act] repeatedly."

-Larry Irving, Assistant Secretary For Communications & Information, U.S. Department of Commerce, Dow Jones 1/9/98

"...most New Yorkers still don't have a choice in local phone companies."

-Consumer Federation of America director of research Mark Cooper, press release 1/6/98

"Bell Atlantic has adopted policies to protect its private interests that may make it impossible for the local telephone market ever to be irreversibly opened to competition."

-Consumer Federation of America director of research Mark Cooper, Bloomberg 1/7/98

"I am disappointed with the progress we have made thus far in introducing competition to the telephone industry..."

-FCC Chairman William Kennard, Los Angeles Times 1/5/98

"...local competition turned out to be a non-event in 1997...any customers who were brave enough to try to switch local phone companies were plagued by confusion and delays."

-The Utility Reform Network attorney Thomas Long, San Francisco Examiner 1/4/98

"The law is not working and this court case adds further doubt over whether we will ever see competition in telecommunications."

-Gene Kimmelman of Consumers Union, Associated Press 1/1/98

"It seems as though most customers are feeling quite a lot of pain to accommodate [local] competition, but they haven't seen many of the promised benefits."

-Seamus Glynn, Illinois Citizens Utility Board, Chicago Tribune 12/21/97

"The Consumer Federation of America's review of BellSouth's request to provide in region, interLATA long distance in Louisiana filed at the Federal Communications Commission

demonstrates why there is no local competition in Louisiana, virtually none anywhere in BellSouth's region and little elsewhere in the country."

-Mark Cooper, Consumer Federation of America, statement dated 12/19/97

"Anyone who reads the record of these proceedings [BellSouth's Louisiana 271 application] will understand that the reason consumers do not have local competition is because the Baby Bells are determined to prevent it."

-Mark Cooper, Consumer Federation of America, statement dated 12/19/97

"There is no competition. We have to have effective regulation."

-Mark Cooper, Consumer Federation of America, Dow Jones 12/9/97

"It is clear that meaningful levels of local telephone service competition will not develop in the foreseeable future...appellate rulings undermine the Commission's efforts to establish the basic elements of local competition, including...reasonable access to unbundled network elements."

-Consumer/business coalition (Consumer Federation of America, International Communications Association, National Retail Federation) petition to FCC for lower access charges, 12/9/97

"Meaningful competition is not developing rapidly, let alone any time soon."

Consumer/business coalition (Consumer Federation of America, International Communications Association, National Retail Federation) petition to FCC for lower access charges, 12/9/97

"South Carolina consumers still have no choice for local telephone service."

-Consumer Federation of America press release, 11/18/97

"We'd like to see more competition in long distance but we have virtually none at the local level. And the fear is that if Bell companies like Ameritech get into long distance, they will then have no incentive to really be opening up their markets so that we have effective competition at the local level..."

-Martin Cohen, Illinois Citizens' Utility Board, radio interview on WBEZ-FM in Chicago, 9/2/97

Headlines/Editorial

"...[competition] hasn't happened. Local competition remains nearly nonexistent...one big reason: the regional Bells have used every trick to keep their systems closed, even as they've gone to court so they could provide long distance service."

USA Today editorial 1/5/98

"The [telecom] act does not...punish the regional Bell companies. In fact, it does the opposite, which is why the Bells lobbied hard for its passage."
-New York Times editorial 1/3/98

"Almost no competition exists in South Carolina for local residential customers...pay-phone rates, however, have been raised as a result of the legislation."
-The State, 12/26/97

"Chicago-Area Public Still Waits for Phone Competition Payoff"
-Chicago Tribune headline, 12/21/97

"In the strongest signal yet that widespread local telephone competition for consumers is nowhere in sight, AT&T Corp. said Thursday it will curtail efforts to break into that market until it can find a more profitable route."
-Dallas Morning News, 12/19/97

"Phone Competition Minimal In Massachusetts"
-Associated Press headline 11/23/97

"...most Massachusetts residents have no choice when it comes to their local phone service. For most residents, the only option is still Bell Atlantic Corp., the corporate successor to New England Telephone."
-Associated Press 11/23/97

APPENDIX D:
CLEC MARKET SHARE THROUGH UNBUNDLED NETWORK ELEMENTS, BY STATE

ILEC	State	Total Lines	Unbundled Network Elements	CLEC Market Share Through Unbundled Network Elements
AIT	IL	6,855,597	17569	0.26%
AIT	IN	2,166,523	0	0.00%
AIT	MI	5,346,018	29870	0.06%
AIT	OH	4,032,875	20682	0.51%
AIT	WI	2,211,197	13	0.00%
BEL	DC	907,352	127	0.01%
BEL	DE	540,130	0	0.00%
BEL	MD	3,531,304	1832	0.05%
BEL	NH	769,806	0	0.00%
BEL	NJ	6,046,302	0	0.00%
BEL	NY	10,994,647	19573	0.18%
BEL	PA	6,271,975	10899	0.17%
BEL	RI	655,040	0	0.00%
BEL	VA	3,345,119	0	0.00%
BEL	VT	334,631	0	0.00%
BLS	AL	1,923,404	0	0.00%
BLS	FL	6,230,591	1787	0.03%
BLS	GA	4,003,314	1340	0.03%
BLS	KY	1,171,039	0	0.00%
BLS	LA	2,256,180	0	0.00%
BLS	MS	1,234,225	0	0.00%
BLS	NC	2,322,037	0	0.00%
BLS	SC	1,398,885	0	0.00%
BLS	TN	2,613,507	5321	0.20%
GTE	AL	169,439	0	0.00%
GTE	AR	205,842	0	0.00%
GTE	AZ	7,987	0	0.00%
GTE	CA	4,393,949	371	0.00%
GTE	FL	2,231,721	12	0.00%
GTE	HI	710,740	1	0.00%
GTE	IA	272,532	0	0.00%
GTE	ID	127,464	0	0.00%
GTE	IL	881,727	0	0.00%
GTE	IN	922,143	0	0.00%
GTE	KY	524,120	0	0.00%
GTE	MI	725,222	0	0.00%
GTE	MN	123,673	0	0.00%
GTE	MO	419,920	0	0.00%
GTE	NC	333,071	3	0.00%
GTE	NE	56,796	0	0.00%
GTE	NM	88,670	0	0.00%
GTE	NV	33,360	0	0.00%
GTE	OH	846,048	0	0.00%
GTE	OK	113,599	0	0.00%
GTE	PA	634,625	0	0.00%
GTE	SC	201,275	0	0.00%

GTE	TX	1,854,516	0	0.00%
GTE	VA	562,823	0	0.00%
GTE	WA	829,260	0	0.00%
GTE	WI	479,534	0	0.00%
SBC	AR	942,837	0	0.00%
SBC	CA	17,414,696	13923	0.08%
SBC	KS	1,332,782	0	0.00%
SBC	MO	2,501,911	0	0.00%
SBC	NV	332,647	0	0.00%
SBC	OK	1,619,335	0	0.00%
SBC	TX	9,343,728	17	0.00%
USW	MN	2,199,206	0	0.00%
USW	CO	2,553,958	0	0.00%
USW	IA	1,048,977	0	0.00%
USW	ID	492,572	0	0.00%
USW	AZ	2,605,005	340	0.00%
USW	MT	354,834	0	0.00%
USW	ND	252,949	0	0.00%
USW	NE	521,811	0	0.00%
USW	NM	774,013	0	0.00%
USW	OR	1,353,255	0	0.00%
USW	SD	268,015	0	0.00%
USW	UT	1,060,535	0	0.00%
USW	WA	2,401,457	0	0.00%
USW	WY	234,648	0	0.00%

Source: ILEC UNE data in the following tables is compiled from the electronic survey responses from these ILECs, which the FCC received in March, 1998, in response to FCC February 20, 1998 data request.

APPENDIX E
REGULATORY AGENCY FINDINGS
REGARDING LOCAL COMPETITION IN VARIOUS STATES

REGULATORY AGENCY FINDINGS
REGARDING LOCAL COMPETITION IN VARIOUS STATES

i. Michigan

In October of 1997, the Michigan Public Service Commission (MI PSC) stated in its Report to the Michigan Governor and Legislature that Ameritech had reported to the Securities & Exchange Commission[80] that it served 5.3 million access lines in Michigan.[81] The MI PSC also reported that CLECs have approximately 20,000 lines provisioned through UNEs, primarily in the Grand Rapids area., with some concentration in the Flint and Detroit areas.[82] The MI PSC also stated that "[t]here are no CLECs operating in GTE Michigan service areas."[83]

The MI PSC concluded that

> At this time, absent some form of oversight, the telecommunications market and the current and prospective participants in that market do not and cannot satisfy the Section 101(2)(b) mandate of The Act that competition be allowed to determine the availability, price, terms and other conditions of providing telecommunications services.[84]

The MI PSC also concluded that "the price of telecommunications services has not yet, as had been hoped, declined," and that:

---

80 MBT Form 10Q (9 months ended 9/10/97.)

81 Report to the Michigan Governor and Legislature on Public Act of 1991 as amended, Section 353, February 1998, submitted by the Michigan Public Service Commission, Michigan Department of Consumer and Industry Services, In Compliance with Public Act 179 of 1991, as Amended by Public Act 216 of 1995)(Report to the Michigan Governor and Legislature)

82 Report to the Michigan Governor and Legislature at 3-4.

83 Id. at 4.

84 Id. at 9.

At this time, the participants in the telecommunications market appear to be relying more on the regulatory and judicial process than market forces to determine the availability, prices, terms and other conditions of telecommunications services. In other words, the marketplace for local telecommunication services in Michigan is dominated by Ameritech Michigan and GTE and a truly open marketplace remains a goal, not a reality.[85]

ii. Indiana

On July 1, 1997, the Indiana Utility regulatory Commission reported that:

At present time (7/1/97), TCG is the only company that has obtained the three items required to provide local service -- an approved interconnection agreement with Ameritech -Indiana, an approved CTA (Certificate of Territorial Authority) and approved tariffs. TCG recently notified the Commission that the company was in service, but the Commission is not aware of any customers it has signed.[86]

iii. Oklahoma

In its evaluation of SBC's 271 Application (to provide in-region long distance service), on May, 16, 1997, the U.S. Department of Justice wrote:

SBC's claim that it has satisfied Track A rests on its provision of interconnection and access to Brooks Fiber, the only new operational local exchange provider in Oklahoma with whom SBC has an approved access and interconnection agreement.... It is undisputed that Brook's only residential services are provided by resale of SBC services to four Brooks employees who are participating in a very limited trial."[87]

---

85 Id.

86 Telephone Report to the Regulatory Flexibility Committee of the Indiana General Assembly, Submitted by the Indiana Utility Regulatory Commission, July 1, 1997, at 5.

87 Evaluation of the US Department of Justice, SBC Communications -Oklahoma, May 16, 1997, at 20.

iv. New York

On January 15, 1998, the New York Department of Public Service released the results of its competitive Analysis. [88] The NY PSC found that, based on information provide by reporting carriers, CLEC facilities-based local residential market share in the New York metropolitan area is 0.07 percent, and 0.0 percent in upstate New York. It also found that CLEC facilities-based local business market share in the New York metropolitan area is 4.75 percent, and 1.14 percent in Upstate New York. Overall, the NY PSC found that CLEC facilities-based market share in the New York metropolitan are was 1.79 percent, and 0.32 percent in Upstate New York.

v. Florida

In its September 19, 1997 draft report, the Florida Public Service Commission stated that:

> If competition is stable and sustainable, all firms in the market should be able to price their services with little regulatory oversight. However, without sufficient competition, unchecked prices could hurt consumers, or at a minimum could result in earnings for incumbents that are far greater than those that would be sustainable under competitive market conditions. It appears that Florida is presently in between these two situations: there is little competition, and there is little regulation over prices for many services. Although incumbents' local service prices are capped by statute, there is little or no competition to warrant removal of caps; and there is no competitive pressure to reduce uncapped prices, or regulatory oversight to determine whether uncapped prices generate returns that are normal for a competitive market."[89]

The Florida Public Utility Commission further stated that:

---

[88] State of New York Department of Public Service, Case 97-C-0271, January 15, 1998. The NYPSC recognized in its report that its analysis did not represent a precise picture of the competitive landscape throughout New York, but provide a reasonable estimate of the competitive activities of the responding carriers.

[89] Local Telecommunications Competition, September 19, 1997 Draft, at 9.

> If...local competition continues to flounder, the price freezes may need to be extended, or the price caps adjusted....While many believe that the present is simply a time for ironing out the intricacies of the future competitive environment, there are developing signs that local competition may be more on the distant horizon than on the near one.[90]

vi. Wisconsin

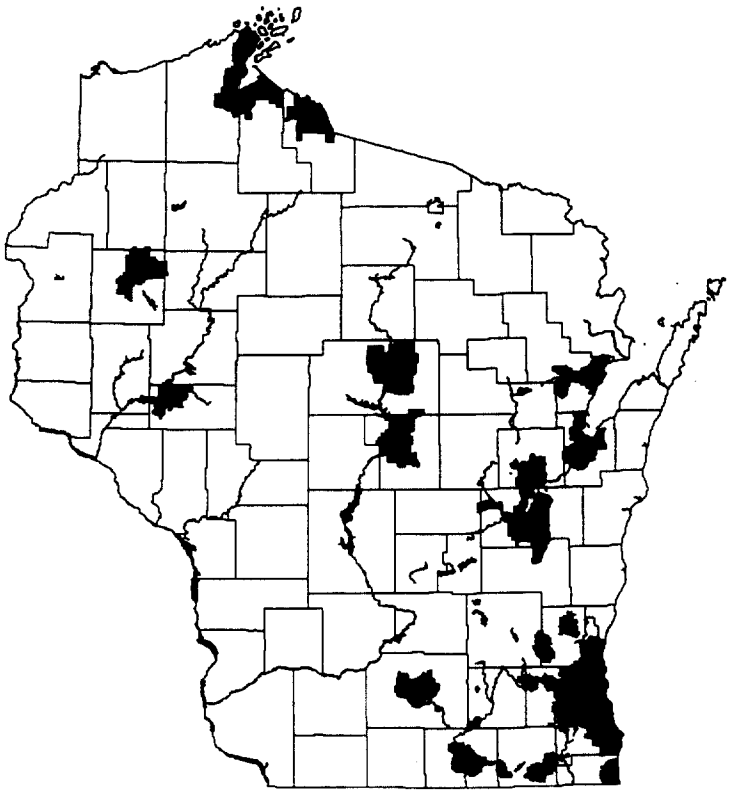
In December, 1997, the Public Service Commission of Wisconsin submitted its report on the status of investment in advanced telecommunications infrastructure in Wisconsin to the Legislature's Joint Committee on Information Policy.[91] In that study, the Wisconsin PSC projected that competition would develop in only limited areas of the state.

---

90 Id. at 9-10.

91 Public Service Commission of Wisconsin, Status of Investment in Advanced Telecommunications Infrastructure in Wisconsin, Report to the Legislature's Joint Committee on Information Policy, December 1997.

WISCONSIN
PROJECTED AREAS OF COMPETITION



Note: Service shown for 1997 is estimated year-end status.
Interconnection agreements must be in place with the incumbent local exchange provider before service can be provided by the new entrant.

Map 13

The map indicates the presence of two or more companies certified to provide facility based local exchange service. As of October 1997, 25 companies were certified as Competitive Local Exchange Companies (CLECs) within the state. While these companies have the ability and certification to provide local service throughout an exchange, they often compete on a selective basis. The map includes one ILEC that provides facility based service outside of its exchange.

50 0 50 Miles

CLEC Service Implementation

- 1997 CLEC Service
- 1998 Proposed Service
- 1999 Proposed Service

N

APPENDIX F:
DECLARATIONS OF MCI
ACCESS MANAGEMENT EXECUTIVES

DECLARATION OF DENNIS KERN

I, Dennis Kern, declare as follows:

1. I am Vice President of Eastern Financial Operations within MCI Telecommunication's Financial Operations and Accounting organization. I manage MCI's relationship with NYNEX, Bell Atlantic and Southern New England Telephone, which includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, New York, Connecticut, New Jersey, Pennsylvania, Delaware, Maryland, Virginia, District of Columbia, and West Virginia. I am responsible for the management of all Telco cost within the East region, including both Access and Interconnection. One of my duties is to identify and utilize alternative access providers for as much of MCI's interexchange traffic as is feasible.

2. Previously, I was Vice President of MCI's Southern Region Operations and Eastern Region Operations in the networkMCI Services organization. I joined MCI in July, 1975. Prior to my appointment to Vice President in 1988, I held a number of technical and managerial positions including Director of National Network Engineering, Director of Northeast Operations, and Director of Operations for MCI International. Prior to joining MCI, I worked for AT&T. I also served four years with the United States Coast Guard and studied at LaSalle University.

3. The purpose of my declaration is to provide information concerning the state of exchange and exchange access competition in the East region. Specifically, I will provide statistics that illustrate MCI's inability to migrate substantial amounts of traffic from the incumbent LECs (ILECs) to alternative providers. I will also describe certain ILEC practices that demonstrate the absence of exchange and exchange access competition in the East region. Finally, I will provide evidence to demonstrate some of the economic barriers CLECs face as they attempt to enter the local market.

4. Analysis of ILEC, CAP, and CLEC exchange access bills for the fourth quarter of 1997 show that ILECs continue to provide MCI with the vast majority of the exchange access services which MCI requires in the East region, despite MCI's consistent efforts to identify and utilize alternative access providers. The data show that alternative providers accounted for less than 2.5% of MCI's total switched access costs in the East region during those months. This includes all charges associated with entrance facilities, switched access transport, switching, and common line. The data further show that alternative providers accounted for less than 17% of the dedicated switched access transport circuits which MCI purchased in the East region during the fourth quarter of 1997.

5. Three factors severely constrain MCI's ability to migrate exchange access traffic to alternative providers: (1) the relatively small number of end user customers served by those providers; (2) the limited networks of those providers; and, (3) excessive ILEC termination liabilities.

6. The limited networks of the alternative providers constrain MCI's access choices in two ways: (1) they constrain the ability of those providers to gain end user customers; (2) they prevent MCI from migrating substantial amounts of its switched access transport traffic off the ILEC

networks. Thus, ILECs will continue to provide MCI with the vast majority of exchange access services.

7. Even in cases where an alternative provider has facilities, it is often infeasible for MCI to move existing traffic from the ILEC to the competitive provider because of high termination liabilities, non-recurring charges, and administrative requirements imposed by the ILEC. The ILECs take advantage of MCI's need to purchase services at favorable prices, by structuring their price schedules such that only customers who agree to long-term, high-volume contracts receive favorable discounts. These contracts entail significant termination liabilities, which effectively lock customers in place and prevents competition for this market segment. If MCI were to provision from Bell Atlantic 10 DS3 level circuits at a price of $2000 per circuit per month for a five year term and then decide to pursue a lower priced service with a competitive access provider 8 months into the contract, the minimum termination liability incurred by MCI would total $236,000. This is a amount equal to nearly 12 months of service. If MCI wished to pursue an alternative service priced 20% lower it would take five years of monthly savings to pay back the liability to Bell Atlantic. This does not include the non-recurring charges incurred for initiating the new service. In this pricing environment the ability of MCI to pursue competitive services is severely stifled.

8. In many instances, ILEC actions and policies demonstrate the absence of exchange access competition. For example, if access competition were robust, I would expect the ILECs to have to lower prices to remain competitive. ILECs in the East region continue to price rate elements at the highest levels permitted. Also, by offering end user customers rebates on its access revenues, Bell Atlantic North is able to insulate its monopoly from competitive inroads.

9. The FCC's changing rules on when carriers must pay the TIC have also negatively affected the development of exchange access competition in the East region. Under last May's First Report and Order on Access Charge Reform, interexchange carriers would no longer have been required to pay the TIC when using alternative transport providers. While MCI was preparing to order circuits from alternative providers, the Commission issued its Second Order on Reconsideration which greatly reduced the portion of TIC which could be avoided. Consequently, MCI reduced its planned orders from alternative providers in the East region by more than half. The result is that the networks of alternative providers are less extensive and robust than they would have been, had the Commission not acted to protect ILEC revenues from competition.

10. Exchange access competition is by definition dependent on the emergence of alternative providers of exchange access. The most common type of alternative provider to date has been the CAPs, who currently provide very limited access competition to the ILECs as discussed above. Another potential competitor that is currently emerging is the Competitive Local Exchange Carrier (CLEC). The CLEC can compete for exchange access traffic through the provision of alternative facilities-based local exchange service.Unfortunately, it will take a significant amount of time and capital investment for the CLECs to be viable competitors and, thus, exert any competitive pressure on exchange access pricing. Although MCI is currently providing facilities-based local service in 8 cities in the East region, such efforts to date have

resulted in relatively limited competition in the local exchange market, in addition to the exchange access market. While MCI is committed to providing local service, throughout the business and residential market where financially viable, MCI has been prevented from entering the local market on any widespread basis. There are three primary financial reasons for this result.

11. First, although the legal barriers to entry have been removed, economic barriers remain in the form of subsidized retail rates for residential service, recurring and non-recurring rates that are not set at forward-looking costs for unbundled elements (UNEs), and delays in establishing permanent rates at the state level. Permanent rates have only been established in 4 states in my region.

12. Second, even if rates are priced at forward-looking cost, which has not been the case for most UNEs where permanent rates have been established, and MCI operates as efficiently, MCI will continue to face greater costs than the ILEC, in particular NRCs that are charged by the ILECs to migrate a customer. The ILEC does not face these charges not because of it is more efficient, but because of its historical position as the monopolist it currently has all of the customers. Therefore, MCI must be even more efficient in order to successfully enter and remain in the local market.

13. Finally, despite the desires of MCI to enter the local market, it takes time to build and establish a robust local network. Even if capital is available, it takes, on average, 9 months to 1 year to build a local city network. Although multiple cities can be simultaneously under construction, lack of available financing and trained personnel prevent the overnight construction of a ubiquitous nationwide network.

14. All of these factors combined slow MCI's ability to enter the local market on a facilities basis and thereby provide the means necessary to provide a viable alternative to exchange access from the ILECs.

I declare, under penalty of perjury, that the foregoing is true and correct. Executed on April 30, 1998.

Dennis J. Kern

DECLARATION OF MARCEL HENRY

I, Marcel Henry, declare as follows:

1. I am Vice President of Southern Financial Operations within MCI Telecommunications Financial Operations and Accounting Organization. I manage MCI's relationship with BellSouth, Sprint/United, and Independent Telephone Companies that operate in Kentucky, Tennessee, North Carolina, South Carolina, Georgia, Florida, Alabama, Louisiana, and Mississippi. I am responsible for the management of all Telco costs within the Southern region, including both access and interconnection. One of my duties is to identify and utilize alternative access providers for as much of MCI's interexchange traffic as is feasible.

2. Prior to joining MCI, I spent nearly 15 years with Pacific Bell, where I was Vice President-Lead Negotiator for interconnection agreements with major carriers. I held a number of other positions at Pacific Bell, including Vice President-Sprint Division and Director of Sales-National Accounts. I have a B.S. in Information Systems Management from the University of San Francisco and am a graduate of the Harvard Business School Program for Management Development (PMD). I am a member of the Harvard Business School Alumni Association.

3. The purpose of my declaration is to provide information concerning the state of exchange and exchange access competition in the Southern region. I will provide information to illustrate the absence of exchange access competition. I will also offer examples of ILEC practices that show that the incumbents do not behave like companies facing substantial competition. Finally, I will provide evidence to demonstrate some of the economic barriers CLECs face as they attempt to enter the local market.

4. Analysis of ILEC, CAP, and CLEC exchange access bills for the fourth quarter of 1997 show that ILECs continue to provide MCI with the vast majority of the exchange access services which MCI requires in the Southern region, despite MCI's consistent efforts to identify and utilize alternative access providers. The data show that alternative providers accounted for less than 0.15% of MCI's total switched access costs in the Southern region during those months. This includes all charges associated with entrance facilities, switched access transport, switching, and common line. The data further show that alternative providers accounted for less than 4% of the dedicated switched and special access transport circuits which MCI purchased in the Southern region during the fourth quarter of 1997.

5. Three factors severely constrain MCI's ability to migrate exchange access traffic to alternative providers: (1) the relatively small number of end user customers served by those providers; (2) the limited networks of those providers; and, (3) excessive ILEC termination liabilities.

6. The limited networks of the alternative providers constrain MCI's access choices in two ways: (1) they constrain the ability of those providers to gain end user customers; (2) they prevent MCI from migrating substantial amounts of its switched access transport traffic off the ILEC