ATTACHMENT 11

DECLARATION OF WAYNE HUYARD

REDACTED – FOR PUBLIC INSPECTION

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

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

DECLARATION OF WAYNE HUYARD

I, Wayne Huyard, declare as follows:

1. As President of U.S. Sales and Service for MCI, I am responsible for MCI's sales and service in consumer markets. My previous position with MCI was President of Mass Markets, and I have been with MCI for 20 years.

I. The Continuing and Irreversible Decline of MCI's Consumer Business

2. No matter what measure is used, the facts make incontrovertibly clear that MCI's consumer business is in a continuing and irreversible decline (*see* Exhibits 1-7):

> **Revenues**: Between 2003 and 2004, MCI's consumer revenues shrank by 20% from **[BEGIN PROPRIETARY] [END PROPRIETARY]** to **[BEGIN PROPRIETARY] [END PROPRIETARY]**. In particular, MCI's domestic stand-alone long distance revenue decreased substantially, from **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005. At the same time, revenues from MCI's integrated local/long distance products were **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2003, hit a peak of **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of June 2004, and then began dropping, to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005. MCI's stand-alone local revenues, which have always been a small portion of MCI's overall consumer revenue, dropped from **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005.

Minutes: In January 2003, MCI's consumer business had **[BEGIN PROPRIETARY] [END PROPRIETARY]** minutes of domestic long-distance traffic generated by customers that purchase stand-alone long-distance service. By January 2005, that number had been cut by more than half, to **[BEGIN PROPRIETARY] [END PROPRIETARY]**. Domestic all-distance minutes generated by integrated local/long distance customers did not change substantially; they were **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2003, **[BEGIN PROPRIETARY] [END PROPRIETARY]** in June 2004, and **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005. Minutes for stand-alone local customers dropped from **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005.

Lines: In January 2003, MCI's consumer business had **[BEGIN PROPRIETARY] [END PROPRIETARY]** stand-alone long distance accounts. That monthly number had dropped to **[BEGIN PROPRIETARY] [END PROPRIETARY]** by January 2005. In January 2003, MCI had **[BEGIN PROPRIETARY] [END PROPRIETARY]** integrated local/long distance lines, which increased to **[BEGIN PROPRIETARY] [END PROPRIETARY]** lines in June 2004 and dropped to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for January 2005. The number of stand-alone local lines dropped from **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005. Furthermore, MCI is losing customers on a monthly basis, across all segments. In the last six months of 2003, MCI lost **[BEGIN PROPRIETARY] [END PROPRIETARY]** of its standalone long distance lines, averaging a net loss of **[BEGIN PROPRIETARY] [END PROPRIETARY]** stand-alone long distance lines per month. In the first six months of 2004, MCI lost an additional **[BEGIN PROPRIETARY] [END PROPRIETARY]** of its stand-alone long distance lines, averaging a monthly line loss of **[BEGIN PROPRIETARY] [END PROPRIETARY]**, and in the last six months of 2004, it lost **[BEGIN PROPRIETARY] [END PROPRIETARY]**, or a monthly average of **[BEGIN PROPRIETARY] [END PROPRIETARY]** lines. Similarly, MCI has lost **[BEGIN PROPRIETARY] [END PROPRIETARY]** of its integrated local/long distance lines in the second half of 2004, averaging a monthly net loss of **[BEGIN PROPRIETARY] [END PROPRIETARY]** lines.

3. The decline in MCI's consumer business is national in scope, and it is occurring throughout the Verizon footprint:

Revenues: MCI's domestic stand-alone long distance revenue in Verizon territory decreased substantially, from **[BEGIN PROPRIETARY] [END**

PROPRIETARY] for the month of January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005. At the same time, revenues from MCI's integrated local/long distance products in Verizon states were **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2003, hit a peak of **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of June 2004, and then began dropping, to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005. MCI's stand-alone local revenues in Verizon's footprint, dropped from **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005.

Minutes: In January 2003, MCI's consumer business in Verizon territory had **[BEGIN PROPRIETARY] [END PROPRIETARY]** minutes of domestic long-distance traffic generated by customers that purchase stand-alone long-distance service. By January 2005, that number had been cut by more than two-thirds, to **[BEGIN PROPRIETARY] [END PROPRIETARY]**. Domestic all-distance minutes generated by integrated local/long distance customers in Verizon's footprint did not change substantially; they were **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2003, **[BEGIN PROPRIETARY] [END PROPRIETARY]** in June 2004, and **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005. Minutes for stand-alone local customers in Verizon states dropped from **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005.

Lines: In January 2003, MCI's consumer business had **[BEGIN PROPRIETARY] [END PROPRIETARY]** stand-alone long distance accounts in Verizon territory. That monthly number had dropped to **[BEGIN PROPRIETARY] [END PROPRIETARY]** by January 2005. In January 2003, MCI had **[BEGIN PROPRIETARY] [END PROPRIETARY]** integrated local/long distance lines in the Verizon footprint, which increased to **[BEGIN PROPRIETARY] [END PROPRIETARY]** lines in June 2004 and dropped to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for January 2005. The number of MCI stand-alone local lines in Verizon states dropped from **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005. Furthermore, MCI is losing customers on a monthly basis, across all segments. In the last six months of 2003, MCI lost **[BEGIN PROPRIETARY] [END ROPRIETARY]** of its stand-alone long distance lines in Verizon's territory, averaging a net loss of **[BEGIN PROPRIETARY] [END PROPRIETARY]** stand-alone long distance lines per month. In the first six months of 2004, MCI lost an additional **[BEGIN PROPRIETARY] [END PROPRIETARY]** of its stand-alone long distance lines in Verizon's footprint, averaging a monthly line loss of **[BEGIN PROPRIETARY] [END PROPRIETARY]**, and in the last six

> months of 2004, it lost **[BEGIN PROPRIETARY] [END PROPRIETARY]**, or a monthly average of **[BEGIN PROPRIETARY] [END PROPRIETARY]** lines. Similarly, MCI has lost **[BEGIN PROPRIETARY] [END PROPRIETARY]** of its integrated local/long distance lines in the second half of 2004 in Verizon states, averaging a monthly net loss of **[BEGIN PROPRIETARY] [END PROPRIETARY]** lines.

4. MCI's consumer base has declined, and will inevitably continue to shrink, because a series of market, technological, and regulatory changes have converged to reshape the telecommunications landscape. These factors include: competition from cable telephone, wireless, VoIP, and instant messaging; competition from the Regional Bell Operating Companies ("RBOCs") and other carriers; customer preference for all-distance service and the convenience of one bill from one company for their telecommunications needs, coupled with regulatory changes that eliminated UNE-P; and restrictions on marketing resulting from "Do Not Call" legislation.

II. Technological, Market, and Regulatory Causes of the Decline

5. Consumers now use wireless phones to make a substantial percentage of their long distance calls, sharply reducing the number of retail long distance minutes carried by wireline providers. Recent data show that the average household with a wireless phone now places 60% of their long distance calls on wireless phones, instead of a traditional wireline home phone. [Yankee Group News Release, *The Success of Wireline/Wireless Strategies Hinges on Delivering Consumer Value* at 7 (Oct. 2004).] Wireless carriers offer customers not only popular flat-fee pricing arrangements, but also the added convenience of mobility. Moreover, a small but growing percentage of consumers have "cut the cord" entirely, opting to use wireless service in place of both local and long-distance wireline service.

6. Wireless is not the only new technology that has adversely affected the size of the market available to MCI. Cable companies and the RBOCs are rolling out cable modem service and DSL, respectively, on a widespread basis. The move to broadband has been accompanied by the emergence of Voice over IP ("VoIP") technology, which allows people to make telephone calls at a fraction of the price traditional telephone companies charge. The increasing availability of VoIP over broadband will further curtail MCI's opportunities in the residential arena. Furthermore, newer technologies such as wireless "WiFi" mesh networks are beginning to be deployed by local governments as well as service providers. Newer and better broadband technologies such as "WiMax" offer even greater potential down the road. And email and instant messaging now allow consumers to communicate across the country and around the world without using the telephone. All of these technological developments are eroding and will further erode MCI's residential business.

7. By the end of 2003, the RBOCs had obtained in-region interLATA authority throughout the country. The RBOCs were able to offer all-distance packages, and quickly won long-distance customers at the expense of MCI and other traditional wireline carriers.

8. Recent data demonstrate that more than half of U.S. households purchase an "all-distance" service, which includes local and long-distance service and a number of vertical features such as call waiting and caller ID. ["Bundle Up," WSJ at B4 (July 15, 2004).] Moreover, the number of customers purchasing all-distance service from the same provider has roughly doubled in the past two years, and will likely continue to grow in the future. ["Bundle Up" at B4.]

9. The success of the all-distance offerings (including MCI's own all-distance offering), along with the other factors discussed above, has led to the severe erosion of MCI's stand-alone long distance business. As the data reviewed above describe, whether measured by revenue, minutes, or customer lines, MCI's stand-alone long-distance business is collapsing, as customers are showing a decided preference for all-distance service. This is true for MCI nationwide as well as in Verizon's service territory. Moreover, stand-alone long-distance is an intensely competitive segment. Changing long distance carriers is easy to do, and customers readily switch carriers. There are a great many competitors offering service of comparable quality at comparable low prices.

10. To meet the burgeoning demand for an "all-distance" product, MCI has tried to offer a bundle by purchasing UNE-P at TELRIC rates. By April 2003, MCI offered residential local service in 48 states and the District of Columbia through the UNE-P capability. In May 2003, we began offering DSL service to our UNE-P customers, where available. Even with intense marketing efforts, however, the number of UNE-P lines MCI provided in individual states typically grew slowly. However, MCI increasingly grew its customer base (or, depending on which data points one considers, at least was not losing customers), and believed it was adding customer value.

11. However, it became clear to MCI that that strategy was no longer available in June 2004, when the United States decided not to appeal the D.C. Circuit's *USTA II* decision to the Supreme Court. This decision made it highly likely that MCI would not be able to continue to obtain UNE-P at regulated rates, and the February, 2005, *Triennial Review Remand Order* confirmed this. The resulting change in the economics of its consumer business has severely limited MCI's ability to continue in residential markets.

12. Finally, for all of MCI's presubscribed consumer product segments, MCI's primary sales vehicle is outbound telemarketing. However, federal legislation enacted in 2003 led to the establishment of a national Do-Not-Call registry, and within a year after the registry began to operate in June 2003, 62 million telephone numbers had been registered on the national list. The effect of do-not-call legislation and rules has been the removal of more than half of the potential customers from the reach of MCI's chief marketing channel.

III. Managing the Decline in the Consumer Business

13. Faced with the irreversible decline of our consumer business, MCI's only option is to manage the decline of that business.

14. MCI had explored options in addition to UNE-P to provide residential services, but they depended upon the continued availability of UNE-P. In response to the FCC's decision in the August 2003 *Triennial Review Order* to allow states to remove UNE-P in certain geographic markets, MCI analyzed the viability of serving consumers via unbundled loops ("UNE-L") combined with MCI switching. As I explained in a declaration during the *Triennial Review Remand Proceeding*¸ [Declaration of Wayne Huyard on Behalf of MCI Inc., *attached to* MCI Comments, *Unbundled Access to Network Elements*, WC Docket No. 04-313 (FCC filed Oct. 4, 2004)], MCI concluded that UNE-L with MCI switching was potentially viable, but only if certain assumptions were realized, only in part of the country, and then only when UNE-P was also available. Complementary UNE-P service is essential because MCI can charge competitive prices only if it can recover common advertising, marketing, and service costs from a broader array of customers. As a result of MCI's analysis, the Board of Directors approved a plan

in May 2004 for MCI to invest more than $180 million in local facilities, which would have been used to pursue a UNE-L strategy in those limited areas where it would be profitable in conjunction with UNE-P service in the rest of the country.

15. This all changed in June 2004, however, when the United States decided not to appeal the D.C. Circuit's *USTA II* decision to the Supreme Court. The limited UNE-L strategy that we explored was based on several assumptions, including an assumption of near-ubiquitous availability of UNE-P, and was designed to supplement, not replace, MCI's use of UNE-P to provide service. 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.

16. At the peak of MCI's activity as a competitor for consumer local and long-distance services, MCI placed over **[BEGIN PROPRIETARY] [END PROPRIETARY]** hours worth of telemarketing calls per month. Today, MCI places only **[BEGIN PROPRIETARY] [END PROPRIETARY]** hours per month, a reduction of **[BEGIN PROPRIETARY] [END PROPRIETARY]** percent. Because the decline in calling results in a diminished need for telemarketing representatives, MCI has been forced to close **[BEGIN PROPRIETARY] [END PROPRIETARY]** call centers, leaving **[BEGIN PROPRIETARY] [END PROPRIETARY]** open, and to close **[BEGIN PROPRIETARY] [END**

PROPRIETARY] customer service centers, leaving **[BEGIN PROPRIETARY] [END PROPRIETARY]** open. MCI has reduced its overall mass market employee base from **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2002 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in February 2005. On March 1, 2005, MCI announced the closing of an additional two customer service centers effective in May 2005.

17. Because MCI can no longer compete on a significant scale for new residential consumers, MCI no longer spends any money on any broadcast advertisements. Our spending on direct mail and print advertising has been reduced from a high of nearly **[BEGIN PROPRIETARY] [END PROPRIETARY]** per month in early 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** in January 2005, a reduction of 90%. Spending on media has decreased from a high of over **[BEGIN PROPRIETARY] [END PROPRIETARY]** per month in the first part of 2003 to **[BEGIN PROPRIETARY] [END PROPRIETARY]** for the month of January 2005. Total mass market SG&A has been cut in half, from approximately **[BEGIN PROPRIETARY] [END PROPRIETARY]** per month in 2002 to less than **[BEGIN PROPRIETARY] [END PROPRIETARY]** per month in 2005.

18. MCI is not now, nor could it become, a price leader for residential services. To the contrary, MCI has increased fees and rates, and has plans to continue to do so in the future. For example, in September 2004, MCI increased the Carrier Cost Recovery Charge for stand-alone long distance to $0.85. In January 2005, MCI increased rates for

local customers in Qwest territory by $1.90, and followed this in March 2005 with a $1.90 increase in the remainder of the country.

19. MCI's shift in focus away from the consumer business includes its consumer DSL offering. MCI has offered consumer-grade retail DSL only as part of a package to its local customers that are served through UNE-P. MCI never built more than a minimal consumer DSL customer base; despite its marketing efforts since May 2003, MCI has fewer than **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** residential customers, a miniscule presence. In addition, earlier this year, MCI began assessing a $99 one-time fee at signup, to cover costs of customer premises equipment ("CPE"). Most of the major consumer DSL providers do not assess a similar charge, and MCI cannot be considered a price leader for consumer DSL.

20. Although MCI has no current consumer VoIP offering, MCI has plans to begin a limited, resale-based trial offering of VoIP service to consumers in May. MCI plans to test various marketing channels, including direct mail, online media, and telemarketing, and is targeting approximately 5,000 customers for the trial offering. But even if the trial were to prove successful enough to justify a commercial launch, MCI would be entering a field in which there are numerous other VoIP providers competing with one another and with wireless, cable, and wireline carriers.

21. In addition to its residential customers, MCI sells commoditized local, long distance, integrated, and DSL service to small business customers, through its mass market marketing channels. These customers purchase off-the-shelf, non-specialized products.

22. Like its consumer DSL offering, MCI's small business local service offering has just a minor presence. At the end of January, 2005, MCI had only **[BEGIN PROPRIETARY] [END PROPRIETARY]** small business local customers, served via UNE-P. MCI is not advertising its local small business offering, and its line count has remained relatively constant in recent months. And while MCI had approximately **[BEGIN PROPRIETARY] [END PROPRIETARY]** small business standalone long distance customers at the end of January 2005, that customer count has declined from **[BEGIN PROPRIETARY] [END PROPRIETARY]** one year ago and **[BEGIN PROPRIETARY] [END PROPRIETARY]** million six months ago, and it continues to decline today.

IV. Conclusion

23. At the end of January 2005, MCI had 3.2 million consumer UNE-P lines in service. That figure reflects a 13% decline over the previous seven months, down from 3.7 million lines at the end of June 2004. The timing of the decline corresponds to our sharp reduction in telemarketing hours, which we began to implement in July 2004, shortly after it became clear to us that UNE-P was not likely to be available much longer.

24. Instead of pursuing new market opportunities, MCI now is focused on managing our declining customer base. For example, to avoid terminating service to our existing and shrinking residential customer base, MCI has pursued commercial agreements for UNE-P replacement products. MCI has entered into one such agreement with Qwest, and we are attempting to reach similar agreements with other RBOCs. While these commercial agreements may enable MCI to obtain a UNE-P replacement product at prices that allow us to continue serving residential customers, at best, these

commercial agreements can only slow the continuing decline of our overall consumer business.

I declare under penalty of perjury that the foregoing is true and correct

Executed on March 9, 2005.

Wayne Huyard

Wayne Huyard

DECLARATION OF WAYNE HUYARD

EXHIBIT 1

REDACTED - FOR PUBLIC INSPECTION

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DECLARATION OF WAYNE HUYARD

EXHIBIT 2

REDACTED - FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION

DECLARATION OF WAYNE HUYARD

EXHIBIT 3

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DECLARATION OF WAYNE HUYARD

EXHIBIT 4

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DECLARATION OF WAYNE HUYARD

EXHIBIT 5

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DECLARATION OF WAYNE HUYARD

EXHIBIT 6

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DECLARATION OF WAYNE HUYARD

EXHIBIT 7

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