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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman  
WILLIAM A. MUNDELL  
MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES

IN THE MATTER OF THE JOINT NOTICE  
OF INTENT OF VERIZON  
COMMUNICATIONS, INC., AND MCI,  
INC., ON BEHALF OF ITS REGULATED  
SUBSIDIARIES

**DOCKET NOs:**T-01846B-05-0279  
T-03258A-05-0279  
T-03475A-05-0279  
T-03289A-05-0279  
T-03198A-05-0279  
T-03574A-05-0279  
T-02431A-05-0279  
T-03197A-05-0279  
T-02533A-05-0279  
T-03394A-05-0279  
T-03291A-05-0279

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**NOTICE OF FILING REBUTTAL TESTIMONY**

On September 9, 2005, Verizon Communications, Inc. filed the Rebuttal Testimony of  
Tim McCallion in the above-referenced matter.

RESPECTFULLY SUBMITTED this 9th day of September, 2005.

VERIZON COMMUNICATIONS INC.

By:

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AZ CORP COMMISSION  
DOCUMENT CONTROL

1 ORIGINAL and thirteen (13) copies  
2 of the foregoing filed this 9th day  
3 of September, 2005, with:  
4 Docket Control  
ARIZONA CORPORATION COMMISSION  
5 1200 West Washington Street  
Phoenix, Arizona 85007  
6  
7 A COPY of the foregoing hand-delivered  
this 9th day of September, 2005, to:  
8  
9 Commissioner Jeff Hatch-Miller, Chairman  
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10 1200 West Washington Street  
Phoenix, Arizona 85007  
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12 Commissioner William A. Mundell  
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21 Commissioner Kristin K. Mayes  
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T-03291A-05-0279

VERIZON COMMUNICATIONS INC.

REBUTTAL TESTIMONY OF

TIMOTHY J. MCCALLION

**Dated: September 9, 2005**

**REBUTTAL TESTIMONY OF TIMOTHY J. MCCALLION**

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**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

A. My name is Timothy J. McCallion. I am employed by Verizon Corporate Services Group Inc. as President, Pacific Region. My business address is 112 S. Lakeview Canyon Road, Thousand Oaks, California, 91362.

**Q. DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING?**

A. Yes.

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

A. The purpose of my testimony is to respond on behalf of Verizon Communications Inc. and its subsidiaries that provide communications services in Arizona (collectively, "Verizon") to the testimony filed by the Arizona Corporation Commission Staff ("Staff") and to further support the Joint Notice of Intent filed on April 13, 2005 by Verizon and MCI, Inc. ("Joint Notice"), as amended on May 6, 2005. Specifically, I address the conditions Staff has recommended and four discrete issues on which Staff requested additional information. Mr. Michael Beach of MCI is also filing rebuttal testimony that will respond on MCI's behalf to Staff's testimony and to Staff's requests for specific information.

**Q. STAFF PROVIDED INFORMATION REGARDING APPROVALS OF THE VERIZON/MCI TRANSACTION IN OTHER STATES. DO YOU HAVE ANY ADDITIONAL INFORMATION REGARDING THE STATUS OF THOSE APPROVALS?**

A. Yes. In addition to the states Staff has identified, the states of Georgia, Delaware, North Carolina, Mississippi, Louisiana, New Hampshire, Tennessee, and Wyoming have now approved the transaction.

1 **Q. DO YOU HAVE ANY GENERAL COMMENTS ON STAFF'S TESTIMONY?**

2 A. Verizon was pleased that after a careful evaluation of the effects of its acquisition of MCI  
3 on Arizona consumers and competition, and consideration of the criteria for evaluating  
4 acquisitions under Arizona law, Staff concluded that the transaction is in the public  
5 interest and should be approved by the Commission. Staff correctly recognized that  
6 Verizon's acquisition of MCI will benefit both companies' customers, employees, and  
7 investors by creating a financially stronger combined company with more resources and  
8 capabilities than either company would have standing alone.

9  
10 **Q. STAFF RECOMMENDS THAT THE COMMISSION CONDITION ITS APPROVAL OF THE TRANSACTION (SEE ABINAH TESTIMONY AT 30-32, FRIMBRES TESTIMONY AT 21-22). PLEASE COMMENT ON THOSE PROPOSED CONDITIONS.**

11  
12 A. Verizon and MCI believe that the conditions proposed by Staff are unnecessary.  
13 Nonetheless, they understand that the Commission and Staff may have some concerns and  
14 will consent to the proposed conditions as explained or clarified below. Verizon also  
15 agrees with Staff that issues related to waivers of the Affiliate Interest Rules are better  
16 addressed in a separate docket.

17  
18 **Q. YOU MENTIONED NEEDING TO EXPLAIN OR CLARIFY A FEW OF STAFF'S PROPOSED CONDITIONS. WHICH ONES ARE THOSE?**

19 A. Verizon will address the information it has provided under AAC R14-2-803, and its  
20 registration of d/b/a notifications for Verizon Enterprise Solutions, its long distance  
21 affiliate. In addition, Verizon clarifies in these comments that the Commission's open  
22 docket on Customer Proprietary Network Information ("CPNI") by affiliates and third  
23 parties should be controlling; therefore, no special conditions on CPNI should be or need  
24 to be adopted in this proceeding.

25

26

1 **Q. HAS VERIZON PROVIDED THE INFORMATION THAT STAFF REQUESTED,**  
2 **NAMELY, THE NAMES AND BUSINESS ADDRESS OF VERIZON AND MCI**  
3 **OFFICERS AND DIRECTORS AND ANY RELEVANT DOCUMENTS AND**  
4 **FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION (“SEC”)**  
5 **AND OTHER STATE AND FEDERAL AGENCIES?**

6 A. Yes. On September 8, 2005, Verizon supplemented the Joint Notice it filed with MCI to  
7 provide (1) the names, titles, and business addresses of the officers and directors of ELI  
8 Acquisition, LLC, and (2) MCI’s August 31, 2005 Proxy Statement and Prospectus, as  
9 submitted to the SEC. Staff proposed that Verizon provide this information as a  
10 requirement of AAC R14-2-803 and as a condition for Commission approval of the  
11 transaction.

12 **Q. CAN YOU RESPOND TO STAFF’S STATEMENT THAT THERE IS NO**  
13 **REGISTRATION OF A DBA NAME FOR VERIZON ENTERPRISE SOLUTIONS**  
14 **IN THE CORPORATIONS SECTION OF THE COMMISSION?**

15 A. Yes. Verizon filed documents entitled “Certificate of Corporation Doing Business Under  
16 a Fictitious Name Pursuant to Provisions of A.R.S. 44-1236” in all counties in Arizona  
17 where Verizon offers services. Those filings state that NYNEX Long Distance Company,  
18 the Verizon affiliate that provides long distance services in Arizona, does business under  
19 the name Verizon Enterprise Solutions. Verizon has filed those documents into this  
20 docket and provided copies to Staff.

21 **Q. PLEASE RESPOND TO STAFF’S RECOMMENDATIONS THAT VERIZON/MCI**  
22 **CLEC AND LONG DISTANCE AFFILIATES BE PERMITTED TO USE**  
23 **VERIZON CALIFORNIA CPNI ONLY TO THE EXTENT THAT THIRD**  
24 **PARTIES ARE ALLOWED TO USE VERIZON CALIFORNIA CPNI.**

25 A. Verizon believes that this issue, just like the issue of waiver of Affiliate Interest Rules, is  
26 best handled outside of this docket. The Commission has a pending rulemaking docket to  
consider the use of CPNI, and Verizon will be subject to the final outcome of that  
rulemaking. Because the issues surrounding the use of CPNI are very complicated, and  
involve numerous business and legal considerations, Verizon believes they should be

1 decided in the rulemaking in Docket No. RT-00000J-02-0066, where they can be fully  
2 briefed and considered. Verizon also believes that it would be inappropriate for the  
3 Commission to impose CPNI rules on Verizon as a condition in this proceeding that are  
4 different from the final CPNI rules that are adopted as a result of the pending rulemaking  
5 – rules that will then apply to other carriers.

6  
7 **Q. CAN YOU RESPOND TO STAFF'S REQUEST THAT VERIZON PROVIDE MORE DETAILS ON THE MERGER?**

8 A. Yes. In their direct testimony, Staff asked Verizon to provide additional information on  
9 four issues: (1) its commitment to invest \$2 billion in MCI's network; (2) the possibility  
10 that the merger will result in rate increases; (3) the merger synergies identified by  
11 Verizon; and (4) benefits to mass market customers resulting from the merger. I address  
12 each of these issues below.

13  
14 **Q. VERIZON WITNESS VASINGTON (TESTIMONY AT 6) TESTIFIES THAT VERIZON HAS COMMITTED TO INVEST \$2 BILLION TO ENHANCE MCI'S NETWORK AND SYSTEMS, INCLUDING MCI'S INTERNET PROTOCOL ("IP") BACKBONE. PLEASE RESPOND TO STAFF'S REQUEST THAT VERIZON WITNESSES PROVIDE "WHATEVER FURTHER INFORMATION THEY MAY HAVE ON THE INVESTMENTS IMPACT ON THE ARIZONA MARKET."**

15  
16  
17 A. Verizon has committed to a \$2 billion capital investment in MCI's network and  
18 information technology platforms over the next four years. Because Verizon and MCI  
19 have not engaged in post-transaction planning, they have not identified precisely where  
20 those investments will be made, including whether any will be made in Arizona. Verizon  
21 made this commitment because it recognized that MCI's nationwide IP backbone is a  
22 critical national asset; among other things, MCI provides critical network infrastructure  
23 for both civilian agencies and the Department of Defense. The merger will enhance the  
24 financial stability of these important assets.  
25  
26

1 **Q. WILL THE TRANSACTION RESULT IN AN INCREASE IN RATES?**

2 A. No rate increases are contemplated as a result of the transaction. This is a parent company  
3 transaction that should have little or no effect on Verizon's or MCI's operating  
4 subsidiaries in Arizona, including on their rates, terms, and conditions of services.

5  
6 **Q. STAFF ALSO REQUESTS ADDITIONAL INFORMATION "ON THE SYNERGIES EXPECTED FROM THE MERGER WHICH LEAD TO THE COMPANIES' CLAIMS OF REDUCED COSTS TO CONSUMERS." PLEASE EXPLAIN THE BASIS FOR PETITIONERS' COST REDUCTION ESTIMATES.**

7  
8 A. The synergy analyses underlying the merger savings estimates are based on the merged  
9 company's taking a variety of steps to reduce costs. Among the planned cost savings  
10 efforts are the elimination of certain duplicative staff, primarily in support functions such  
11 as network engineering, IT, legal, sales, and human resources. MCI and Verizon have not  
12 engaged in state-specific post-transaction planning, however, and have not identified  
13 where reductions in force may be appropriate. Nevertheless, it is safe to assume that  
14 there will be minimal impact in jurisdictions such as Arizona where there are few, if any,  
15 overlapping facilities and centralized functions.

16  
17 The cost reduction estimates also assume that the combined company will be able to  
18 reduce information technology costs by modernizing outdated systems and re-engineering  
19 other redundant information and operational systems and processes. In addition, the  
20 combined company is expected to achieve savings by using existing network capacity to  
21 migrate long distance traffic, which Verizon today transports over third-party networks,  
22 onto the network of the combined company.

23  
24 The cost savings figures were developed by the Verizon teams that performed the MCI  
25 due diligence and will be responsible for plan execution. These financial efficiencies will  
26 allow the new combined company to improve service quality and accelerate the  
development and offering of new services.

1 In prior mergers of significant size and scale, such as the merger of Bell Atlantic and  
2 NYNEX and Bell Atlantic and GTE, Verizon has successfully merged various entities on  
3 a national scale and attained synergy savings. There is every expectation that we will be  
4 similarly successful in this venture.

5  
6 **Q. PLEASE RESPOND TO STAFF'S REQUEST FOR INFORMATION ON  
7 WHETHER AND HOW THE TRANSACTION WILL BENEFIT MASS MARKET  
8 LOCAL EXCHANGE CUSTOMERS.**

9  
10 A. Staff correctly recognizes that the transaction is primarily about enhancing the combined  
11 company's ability to compete in the large business and government segment. The  
12 combination of Verizon's and MCI's complementary assets and expertise, together with  
13 the added investment that Verizon has committed to make to MCI's network and systems,  
14 will strongly promote the public interest. Large enterprise customers will benefit from the  
15 creation of a strong and stable new facilities-based competitor that will be capable of  
16 providing a full range of communications services to large business and government  
17 customers nationwide. Mass market customers, in turn, may benefit from new Internet  
18 access services developed by the combined company and from more efficiently integrated  
19 long distance services. Although the transaction creates a stronger competitor for large  
20 business and government customers, the advanced network facilities and products may,  
21 over time, become accessible to mass market customers. The Internet is an example of  
22 how a technology deployed for government use can become widely accessible to mass  
23 market consumers. Other examples of successful adaptation of communications products  
24 targeted for enterprise customers are wireless phones, Voice over Internet Protocol  
25 calling, and wireless Personal Digital Assistants.

26 **Q. DO YOU HAVE ANY FURTHER COMMENTS FOR THE RECORD?**

A. Yes. As Staff recognized, the merger of Verizon and MCI is in the public interest and  
will provide benefits to their customers, employees, and shareholders. The operations of

1 Verizon's and MCI's operating companies in Arizona will not be changed as a result of  
2 the merger. Indeed, the legal status of Verizon's and MCI's regulated subsidiaries in  
3 Arizona will remain unchanged following the transaction, and these companies will  
4 remain subject to the Commission's authority to the same extent as before. The  
5 transaction will not adversely affect the rates or quality of service of the regulated Verizon  
6 and MCI subsidiaries. To the contrary, the greater resources of Verizon following the  
7 acquisition will enhance the combined company's ability to provide a full array of  
8 competitively-priced, high quality services and products in a dynamic communications  
9 market where wireless and broadband services are rapidly replacing the use of traditional  
10 wireline services. Verizon therefore respectfully requests that the Commission move  
11 quickly to approve the transaction in Arizona.

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

13 **A.** Yes. Thank you.  
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