

1 restructuring and certain related intra-corporate transactions undertaken to consummate
2 WorldCom's Plan of Reorganization under Chapter 11 of the Federal Bankruptcy Code.¹

3 This Application involves a corporate restructuring and related transactions that are
4 essential aspects of WorldCom's Plan of Reorganization (the "Plan") and its emergence from
5 Chapter 11 bankruptcy protection.² WorldCom is submitting this Application despite the absence
6 of a clear legal basis for the Commission's direct involvement in the approval of a company's
7 reorganization and emergence from bankruptcy. Indeed, WorldCom believes that the
8 Commission's jurisdiction under Section 40-285 of the Arizona Revised Statutes is preempted by
9 sections 1123(a)(5) and 525 of the Bankruptcy Code, the doctrine of implied preemption, and the
10 Bankruptcy Court's approval of the Plan. Pursuant to that belief, WorldCom reserves the right to
11 raise and to pursue a preemption claim at an appropriate time and in an appropriate forum.
12

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14 While WorldCom does not agree that the Commission has jurisdiction over this
15 matter, WorldCom files this Application in order to provide the Commission with full information
16 about the post-emergence structure of WorldCom's Arizona public utility subsidiaries. Although
17 WorldCom is aware that Arizona did not object to WorldCom's Amended Joint Plan of
18 Reorganization and Supplement to WorldCom's Disclosure Statement filed on July 9, 2003 in the
19 Bankruptcy Court, the California Public Utilities Commission and several other state attorneys
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21 ¹ To the extent necessary, Applicants also request approval under the Commission's
22 Affiliated Interest Rules, AAC R14-2-801 *et seq.* This reorganization will not result in (1)
23 significant increased capital costs of the Arizona operations; (2) significant additional costs
24 allocated or charged directly to Arizona jurisdictions; or (3) a significant reduction of net income
to the Arizona operations. This reorganization thus will not have a material adverse effect on
Arizona operations.

25 ² The Plan of Reorganization (Exh. A to WorldCom's May 23, 2003 Disclosure Statement),
the Supplement to Debtors' Disclosure Statement, dated July 3, 2003, and related documents are
26 publicly available on-line at <http://global.mci.com/news/infodesk>. Any capitalized terms used in
this Application which are not defined herein shall have the meanings set forth in the Plan.

1 general did file a limited Objection to the Plan on or about July 28, 2003.³ Their Objection was
2 limited to the express preemption position taken by WorldCom in its Supplement to the
3 Disclosure Statement (the "Supplement"). The Supplement provides that the Debtors believe that
4 certain state regulatory laws, including the regulatory laws of Arizona, are preempted pursuant to
5 section 1123 of the Bankruptcy Code and that state regulatory review is preempted by section 525
6 of the Bankruptcy Code. The Supplement also provides that, outside the bankruptcy context,
7 some of the transactions contemplated by the CLEC Consolidation and the Mergers would be
8 subject to the jurisdiction of some or all of the 50 state PUCs.

9
10 On September 19, 2003, WorldCom and the Objecting States entered into a
11 Stipulation Among the Objecting Parties and the Debtors Concerning the Amended Plan and
12 Supplement (the "Stipulation"). A copy of the Stipulation is attached hereto as Exhibit 2. Under
13 the terms of the Stipulation, WorldCom agrees that it will not rely upon express preemption in its
14 Amended Plan of Reorganization and Supplement and the Objecting States agree to remove their
15 Objection to the Amended Plan. Given the removal of the express preemption language from the
16 Supplement to the Disclosure Statement, it may be necessary for WorldCom to file for review and
17 approval of some of the transactions in the Plan of Reorganization in Arizona even though no
18 objection was filed on its behalf to WorldCom's Plan of Reorganization. WorldCom makes this
19 filing in an abundance of caution and on an expedited basis. WorldCom has entered into the
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22 ³ Specifically, the following state government entities and officials are parties to the
23 Stipulation: the California PUC; the California Department of Justice; State of Montana; State of
24 Hawaii, Department of Taxation; Paul G. Summers, Attorney General and Reporter on behalf of
25 the Tennessee Regulatory Authority; State of Minnesota, Department of Commerce and Office of
26 the Attorney General; State of Vermont; State of West Virginia ex rel. Darrell V. McGraw, Jr.,
Attorney General; State of Missouri, Jeremiah W. Nixon Attorney General; State of Illinois, Lisa
Madigan, Attorney General of the State of Illinois on behalf of the People of the State of Illinois;
State of South Dakota; State of Oregon; Public Utilities Commission of Texas; and, the State of
Arkansas (the "Objecting States").

1 Stipulation with the Objecting States agreeing to file for approvals in those States, while reserving
2 its right to assert preemption under certain conditions. By virtue of WorldCom's agreement with
3 the Objecting States and the importance of the timelines established in the Stipulation, WorldCom
4 would seek from the non-objecting states, including Arizona, the same rights and obligations in
5 the Stipulation. The key date in the Stipulation is that the state commission must approve the
6 transactions by November 19, 2003, or WorldCom may, after giving 14 days notice, reassert its
7 position of express preemption.
8

9 Although WorldCom submits this filing without prejudice to its legal position in this
10 matter, there should be no doubt that WorldCom's successful emergence from bankruptcy is
11 manifestly in the public interest, as is the receipt of any necessary approvals under Arizona law, to
12 the extent that they might otherwise be applicable. Therefore, consistent with the timetable of the
13 Stipulation, WorldCom requests, to the extent that the Commission believes that approval is
14 required, that the Commission issue such approval no later than November 19, 2003. Should the
15 Commission find, after review of this Application and supporting information, that its approval is
16 not necessary, WorldCom requests that the Commission issue an order dismissing this
17 Application.
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19 In support of this Application, Applicants state as follows:
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21 **I. DESCRIPTION OF THE APPLICANTS**
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23 WorldCom is a corporation organized and existing under the laws of the State of Georgia
24 with its principal places of business located at 22001 Loudoun County Parkway, Ashburn,
25 Virginia 20147. WorldCom is a global telecommunications company. Through various operating
26 subsidiaries, including the Arizona subsidiaries identified in Exhibit 1, WorldCom provides

1 international telecommunications services and is authorized to offer domestic interstate, intrastate
2 and local telecommunications services in each of the 50 states and the District of Columbia.

3 WorldCom's telecommunications offerings are comprehensive in scale and scope and include
4 virtually every type of voice and data service. Additional information on WorldCom is available
5 at www.mci.com.
6

7 II. CONTACT INFORMATION

8 Correspondence concerning this Application may be directed to:

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20 With a copy to:

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23 707 17th Street, Suite 4200
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26

1 III. DESCRIPTION OF THE REORGANIZATION

2 On July 21, 2002 and November 8, 2002, WorldCom, Inc., and 221 of its direct and
3 indirect domestic subsidiaries (the “Debtors”) commenced cases under Chapter 11 of the United
4 States Bankruptcy Code in the Bankruptcy Court in the Southern District of New York (the
5 “Bankruptcy Court”).⁴ WorldCom’s operating subsidiaries have continued to operate their public
6 utility businesses, both in Arizona and elsewhere, without interruption during the Chapter 11
7 reorganization proceedings. WorldCom has not discontinued or diminished its service to utility
8 customers, despite its bankruptcy filing. It has maintained its state-of-the-art network, preserved
9 service quality, and continued to expand the availability of innovative and competitive services
10 during this process.
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13 A. WorldCom’s Bankruptcy Reorganization

14 WorldCom has proposed a Plan of Reorganization in the Bankruptcy Court that will
15 reorganize the capital structure of WorldCom, Inc. WorldCom is the parent company of various
16 operating subsidiaries, offers no services directly to the public, and holds no certificates of public
17 convenience and necessity issued by the Commission. Under the Plan, WorldCom’s existing
18 common stock and debt will be cancelled and holders of certain classes of claims against the
19 Debtors will receive, in full and complete satisfaction of their claims, newly issued stock in and/or
20 notes of New MCI (as defined below). In addition, holders of some classes of claims will receive
21 cash payments in full or partial satisfaction of their claims.
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23 In addition, WorldCom will be reincorporated as a Delaware corporation and renamed
24 MCI, Inc. To effectuate the reincorporation, the WorldCom holding company will be merged into
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26 ⁴ *In re WorldCom, Inc.*, Case No. 02-13533 (AJG) (S.D.N.Y.).

1 a wholly-owned subsidiary that is incorporated in Delaware, with the subsidiary remaining as the
2 surviving company. At the time of emergence, the subsidiary will change its name to MCI, Inc.
3 (“New MCI”). New MCI will be authorized to issue up to 2 billion shares of new common stock,
4 and between \$4.5 and \$5.5 billion of new notes to holders of Allowed Claims. New MCI will
5 continue to be a widely-held public corporation. No single security holder will exercise either *de*
6 *jure* or *de facto* control over New MCI. New MCI, like its predecessor WorldCom, Inc., will
7 offer no services to the public and will hold no certificates issued by this Commission. The
8 current officers of WorldCom will continue to serve as the officers of New MCI.
9

10 As a critical part of the reorganization, many of WorldCom’s existing operating
11 subsidiaries and holding company subsidiaries will be merged or dissolved so that the New MCI
12 operates under a more rationally organized corporate legal structure. This streamlining is
13 intended to achieve certain operating efficiencies, cost savings, and administrative benefits. The
14 more efficient structure also will reduce duplication of effort and confusion in WorldCom’s
15 dealings with regulators, other government agencies, vendors, and customers.
16

17 As described more fully below and in Exhibit 1, there are five subsidiaries of WorldCom
18 currently authorized to operate as competitive local exchange carriers (“CLECs”) or competitive
19 access providers (“CAPs”) in Arizona. Each of these subsidiaries holds a separate certificate of
20 convenience and necessity and files its own tariffs separate from the other subsidiaries. With the
21 exception of Intermedia Communications, Inc. (“ICI”), the consolidation of CLEC operations
22 envisioned by the Plan of Reorganization will result in the merger of these firms into one
23 remaining firm, MCImetro Access Transmission Services, LLC (“MCImetro”). ICI, another
24 wholly-owned subsidiary of WorldCom that is certificated as a competitive local exchange carrier
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1 and interexchange carrier in Arizona, will not be consolidated into MCImetro at this time.

2 Instead, ICI will be merged into a newly-formed, wholly-owned subsidiary of New MCI at the
3 time of emergence, but there will be no change to the rates, terms and conditions of the services
4 being provided to Intermedia customers as a result of that restructuring.

5 MCImetro is the entity that is best known for providing the residential “Neighborhood”
6 service. It will survive and continue to be the primary entity providing local services for MCI.
7 While these other subsidiaries and holding companies will be merged or dissolved, their tariffs
8 will be incorporated appropriately into existing or new tariffs of the surviving entity, MCImetro,
9 so that all current customers will continue to receive service under the same rates, terms, and
10 conditions as they currently enjoy. Affected customers, if any, will receive prior notice of all
11 these organizational changes, and this Commission will be able to review these tariff changes to
12 ensure that consumers’ rights are fully protected.⁵

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14 It is important to emphasize that, unlike certain other bankruptcies involving regulated
15 utilities, WorldCom’s Plan for emergence from bankruptcy envisions no change in state
16 jurisdiction over any of its regulated operations. The services, rates, terms, and conditions of
17 service provided to the customers of MCI’s utility subsidiaries will remain subject to the
18 jurisdiction of the Commission to the same extent as before emergence. New MCI’s subsidiaries
19 will continue to file tariffs, notices, and reports with state commissions, as appropriate, regarding
20 all of their intrastate services.
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24 ⁵ On August 18, 2003, WorldCom filed with the Bankruptcy Court a description of its
25 current plans with respect to the CLEC consolidation and the changes to its legal structure that
26 will occur as a result of the internal reorganization. WorldCom will notify the Commission if
there are any material modifications to those plans as the company proceeds through the
conclusion of the Chapter 11 emergence process.

1 Confirmation hearings for the Plan commenced in Bankruptcy Court on September 8,
2 2003. Prior to the hearings, groups representing approximately 90 percent of the company's
3 creditors voted in support for the Plan. Since the confirmation hearings began, the Company has
4 entered into proposed settlement agreements with two remaining classes of creditors, meaning that
5 the Plan has now received the support of approximately 95 percent of the Company's creditors.
6

7 B. Effect of the Reorganization on WorldCom's Arizona Public Utility
8 Subsidiaries

9 The reorganization of the WorldCom holding company, the Intermedia merger and the
10 internal consolidation of the operations of certain of WorldCom's existing subsidiaries will have
11 no effect on the services or the rates, terms, and conditions of those services that are currently
12 being provided to Arizona customers. Nor will there be any effect on the Commission's
13 jurisdiction to regulate the provision of services to those customers. As a technical matter,
14 however, the reorganization of WorldCom under Chapter 11 will have some direct and indirect
15 effects on the legal structure of the company's Arizona public utility subsidiaries that, on their
16 face, might arguably be subject to approval requirements under Section 40-285 of the Arizona
17 Revised Statutes. These aspects of the transaction are as follows:
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20 *First*, as noted above, WorldCom, a Georgia corporation, will be reincorporated in
21 Delaware and will change its name to MCI, Inc. As was the case prior to the reorganization, no
22 single security holder will exercise either *de jure* or *de facto* control over New MCI. However, as
23 a technical matter, the reincorporation will result in a change in the legal entity holding the stock
24 of all of WorldCom's Arizona public utility subsidiaries that -- outside the bankruptcy context --
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1 might be construed as a “transfer of control” of those subsidiaries within the scope of Section 40-
2 285 of the Arizona Revised Statutes.

3 *Second*, Intermedia Communications, Inc. (“ICI”), a wholly-owned subsidiary of
4 WorldCom, will be merged into a newly-formed, wholly-owned subsidiary of New MCI at the
5 time of emergence.⁶ Consistent with the Plan, this merger will extinguish certain pre-bankruptcy
6 claims relating to ICI. Although in itself not a transfer of actual working “control,” this will result
7 in a *pro forma* transfer of ICI’s Arizona public utility operating authority to a new corporate
8 entity, which -- outside the bankruptcy context -- could be construed as a transfer within the scope
9 of Section 40-285 of the Arizona Revised Statutes. However, there will be no change to the rates,
10 terms and conditions of the services being provided to Intermedia customers as a result of this
11 restructuring.
12

13 *Third*, several of WorldCom’s existing CLEC and CAP subsidiaries will be consolidated
14 into MCImetro as part of the Plan. In Arizona, the Company’s current plan is to consolidate into
15 MCImetro the following operating subsidiaries that hold certificates of convenience and necessity:
16 Brooks Fiber Communications of Tucson, Inc. (“Brooks Fiber”) and Metropolitan Fiber Systems
17 of Arizona, Inc.⁷ Additionally, the CLEC operations and assets of MCI WorldCom
18 Communications, Inc. (“MCI WorldCom Communications”) will be consolidated into MCImetro.
19 Of the three CLEC subsidiaries that will be consolidated into MCImetro, only Brooks Fiber and
20
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22 ⁶ In addition, Access Network Services, Inc., an existing subsidiary of Intermedia
23 Communications, Inc., will be merged into its parent, with Intermedia Communications, Inc.,
being the surviving entity.

24 ⁷ More precisely, Brooks Fiber Communications of Tucson, Inc., will first be merged into
25 its current parent company, Brooks Fiber Properties, Inc., an unregulated intermediate holding
company that is wholly-owned by WorldCom, Inc. In turn, Brooks Fiber Properties, Inc. will be
26 merged into MCImetro. In addition, Metropolitan Fiber Systems of Arizona, Inc. will be merged
into MFS Telecom, Inc., which will then also be merged into MCImetro.

1 MCI WorldCom currently have local customers in Arizona. There are approximately 364 Brooks
2 Fiber customers and approximately 206 MCI WorldCom Communications customers who will be
3 affected by this consolidation.

4 The consolidation will result in a streamlined and more efficient corporate structure that
5 achieves cost savings and eliminates administrative duplication, including overlapping reports and
6 regulatory filings.⁸ At the same time, customers of these entities will continue to receive service
7 under the same rates, terms and conditions they currently enjoy. Although not itself a transfer of
8 actual working "control" of these subsidiaries, this *pro forma* consolidation might, outside the
9 bankruptcy context, require prior approval by the Commission under Section 40-285 of the
10 Arizona Revised Statutes.⁹

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13 IV. THIS APPLICATION SHOULD BE CONSIDERED ON AN EXPEDITED BASIS

14 The public interest will be best served by the expeditious grant of this Application.
15 Competition will be increased by reinforcing WorldCom's status as a viable competitor, which
16 will result from the completion of the bankruptcy process. More importantly, rapid completion of
17 these transactions will minimize any potential for disruption of service. Applicants emphasize
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19
20 ⁸ MCImetro will update the Local Exchange Routing Guide (LERG) and similar databases,
21 and notify appropriate administrative entities (*e.g.*, the North American Numbering Plan
22 Administrator and Telcordia), to reflect the consolidated ownership, within MCImetro, of all of
the telephone numbers (NPA-NXX) blocks and carrier codes currently assigned to the CLECs that
are being merged into MCImetro.

23 ⁹ To complete the picture, WorldCom notes that the Plan of Reorganization provides for
24 certain other inactive and/or non-operating public utility subsidiaries of WorldCom to be
25 dissolved. None of these entities currently has any Arizona customers, so their dissolution and the
26 cancellation of their certificates of convenience and necessity will have no effect on customers.
WorldCom does not believe that the dissolution of these non-operating companies would require
approval under Section 40-285 of the Arizona Revised Statutes (regardless of whether they are
undertaken as part of a bankruptcy plan). To the extent necessary, MCI will make the appropriate
submissions to the Commission to reflect these changes.

1 that, following the completion of these transactions, end users will continue to receive service
2 under the same rates, terms and conditions as those services are currently being provided. As
3 indicated by the Stipulation attached hereto as Exhibit 2, the Objecting States have expressed their
4 interest in a rapid resolution of the matter. Accordingly, Applicants respectfully request that the
5 Commission grant this Application as expeditiously as possible in order to allow WorldCom to
6 consummate the proposed transactions as soon as possible and, consistent with the timetable for
7 emergence in the bankruptcy proceeding, in no event later than November 19, 2003.
8

9
10 V. PUBLIC INTEREST CONSIDERATIONS

11 Applicants respectfully submit that transactions described in this Application serve the
12 public interest. The reorganization of WorldCom described above and in its Plan of
13 Reorganization does not raise any competitive or customer-affecting issues, nor will it affect the
14 Commission's jurisdiction over the continuing operations of New MCI's operating subsidiaries in
15 Arizona following their emergence from bankruptcy protection. As set forth below, the
16 transaction will in no way diminish competition, as no merger, consolidation, or acquisition
17 involving another carrier or service provider is part of WorldCom's Plan of Reorganization. Nor
18 will the transaction result in an increase in market share for New MCI post-emergence.
19 WorldCom anticipates no adverse impact on service to its customers as a result of this
20 reorganization, and no change in rates will occur as a result of these transactions or the
21 effectuation of the Plan. The operating entities that will emerge after confirmation of the Plan will
22 continue to file tariffs, provide required customer notifications and observe regulatory
23 requirements to the same extent as WorldCom entities do today. In fact, as discussed below,
24 successful implementation of the Plan will benefit New MCI's residential and business customers.
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1 In all other respects, the transaction will be seamless and transparent to WorldCom and the
2 customers of its operating subsidiaries.

3
4 A. The Transactions are Part of a Comprehensive Reorganization Supervised
5 by the Bankruptcy Court in Which the Interests of Customers, Employees,
6 Creditors and Investors Are Being Thoroughly Considered.

7 In connection with the reorganization transactions to be effectuated pursuant to the
8 company's Plan of Reorganization, the Bankruptcy Court already has been charged with
9 thoroughly considering the public interests involved. The Chapter 11 reorganization process is
10 being conducted under careful judicial supervision, including extensive safeguards to protect
11 customer, employee, creditor, and investor interests similar to the factors considered by the
12 Commission in approving non-bankruptcy transactions under Section 40-285 of the Arizona
13 Revised Statutes.

14
15 Following its emergence from bankruptcy, the New MCI will be more financially sound.
16 The creation of a financially sound business is a fundamental purpose of Chapter 11 of the Federal
17 Bankruptcy Code, and among the specific findings that a Bankruptcy Court must make before
18 confirming a reorganization plan is that "[c]onfirmation of the plan is not likely to be followed by
19 the liquidation, or the need for further financial reorganization, of the debtor or any successor to
20 the debtor under the plan, unless such liquidation or reorganization is proposed in the plan." 11
21 USC § 1129(a)(11). Pursuant to its obligations under the Bankruptcy Code, the Bankruptcy Court
22 is reviewing and will issue an order as to the most financially appropriate way for WorldCom to
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1 emerge from bankruptcy, and any similar review by the Commission would unnecessarily
2 duplicate an inquiry that is already before the court.¹⁰

3 Further, consummation of the Plan is the *only* option currently on the table for the
4 reorganization of WorldCom and the preservation of its Arizona public utility operations. No
5 alternative plan has been proposed to the Bankruptcy Court. Hence, if the Plan is not
6 consummated the Court may find that liquidation of the Debtors is necessary. This would
7 severely harm the legitimate interests of numerous creditors, virtually all of which have expressed
8 support for the Plan of Reorganization. Moreover, liquidation of WorldCom would be hugely
9 disruptive to its Arizona customers, would result in the loss of more than 50,000 jobs nationwide
10 (approximately 2000 of which are in Arizona), and would potentially have a significant impact on
11 prices and the level of competition in the long distance and local telephone service markets
12 generally. As the District Court for the Southern District of New York recently stated in
13 approving the settlement of the Securities and Exchange Commission's litigation against the
14 Company:
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17 To kill the company . . . would unfairly penalize its 50,000 innocent
18 employees, remove a major competitor from a market that involves
19 significant barriers to entry, and set at naught the company's
20 extraordinary efforts to become a model corporate citizen. It would
21 also unfairly impact creditors, over 90 percent of who have stated
22 their support for the company's plan of reorganization in
recognition that it affords them far more value than liquidation.
Finally, it would undercut the basic tenets of bankruptcy
reorganization, a unique innovation of the United States bankruptcy

23 ¹⁰ The Bankruptcy Code also requires that a Bankruptcy Judge consider a wide range of
24 other important factors before confirming a plan of reorganization under 11 USC §§1121 *et seq.*,
25 including whether the plan provides adequate means for its implementation (§1123(a)(5)), and
26 whether the plan "provides for the continuation after its effective date of payment of all retiree
benefits ..." (§1129(a)(14)). In addition, a plan cannot be confirmed unless it is accepted by all
impaired classes of creditors and investors, or the Bankruptcy Court finds that the plan is "fair and
equitable" with respect to each such class. §1129(b).

1 law that has contributed materially to the conservation of economic
2 resources and the stability of the U.S. economy.¹¹

3 The Commission's "public interest" analysis considers similar criteria and, as the District Court
4 found, the liquidation alternative plainly would be far less consistent with those "public interest"
5 criteria than completion of the reorganization. As a result, prior review by the Commission in
6 order to make that determination is plainly not necessary.

7
8 B. The Transactions Will Be Transparent to Customers and Will Cause No
9 Changes in Utility Rates or Services.

10 The holding company transaction is a reorganization that does not change the actual
11 working control of certificated Arizona utilities or otherwise affect their operations, their rates, or
12 their customers. The reorganization will not affect the management or operations of any surviving
13 Arizona public utility entity. There will be no interruption or change in service received by any
14 Arizona customer, nor any change in rates or terms of service. Although some customers will
15 receive service from a different legal entity because of the consolidation and simplification of
16 WorldCom's corporate structure, this change will not affect the rates or services they currently
17 receive, or the day-to-day management and operation of the entities from which they obtain
18 service. The consolidated MCImetro will continue to provide the same services, at the same rates,
19 under the same tariffs, terms, and conditions as its predecessor entities. The only changes will be
20 technical transfers of the legal form of organization of the utility companies and their parent
21 holding company. Any subsequent proposal to change those rates and tariffs will be subject to
22 Commission scrutiny.

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25 _____
26 ¹¹ *Securities and Exchange Commission v. WorldCom, Inc.*, Opinion and Order, 02 Civ.
4963, at 7 (slip op. Jul. 7, 2003), 2003 U.S. Dist. LEXIS 11394.

1 C. The Reorganization Will Not Cause Any Change in Actual Working Control
2 of Any Public Utility.

3 The Plan of Reorganization does not contemplate any change in operational control of any
4 utility. WorldCom's current officers and management will remain in place post-reorganization,
5 and will continue to exercise actual, working control over the company's Arizona subsidiaries.
6 The reorganization in this case will cause a change in legal ownership and corporate structure, but
7 not an actual change in control over the Arizona public utility subsidiaries of WorldCom. Under
8 the Plan, the existing common stock of WorldCom will be cancelled, and new common stock and
9 notes of New MCI will be distributed to holders of certain claims against the bankruptcy estate.
10 Because holders of some classes of claims may elect whether to receive new common stock or
11 other consideration for their claims, WorldCom cannot at this time state precisely how the shares
12 of new common stock will be distributed. However, WorldCom anticipates that the new stock
13 (like the existing common stock) will be widely held, and that no individual or affiliated group
14 will hold a controlling interest in the reorganized company. Moreover, the new common stock
15 will be publicly traded, and will be subject to restrictions preventing any person that controls
16 4.75% or more of the stock from acquiring any additional shares.
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19 D. The Reorganization Will Promote the Public Interest by Financially
20 Strengthening the WorldCom Subsidiaries

21 As noted above, the financial viability of New MCI is under review by the Bankruptcy
22 Court on a corporate-wide basis. Even if the Commission were to consider the financial condition
23 of the WorldCom subsidiaries in Arizona, however, it would find that these entities will be far
24 more financially secure following consummation of the Plan than they have been prior to, and as
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1 debtors in, a Chapter 11 proceeding. The capital structure of all the Debtor entities has, in effect,
2 been “frozen” since the filing of Chapter 11 petitions last year, and the WorldCom companies
3 have been able to obtain only short-term financing under the oversight of the Bankruptcy Court.
4 Although WorldCom has made significant progress in putting its business on a sound financial
5 footing while in bankruptcy, the company cannot obtain new capital (either equity or debt) or
6 invest significantly in the improvement of its network until it emerges from bankruptcy.
7
8 Consummation of the Plan will accomplish this goal and enable MCI and its operating
9 subsidiaries to compete effectively with other telecommunications carriers.

10 In addition, consolidation of the Arizona CLEC subsidiaries into MCImetro can be
11 expected to further improve the financial condition of these entities. The current corporate
12 structure imposes unnecessary operating costs for corporate staff to track and account for assets,
13 expenses and revenues for each subsidiary; and to prepare and submit duplicative regulatory
14 filings, corporate paperwork, accounting and tax documentation, and other forms of legal
15 compliance. The companies also must repeatedly negotiate and administer multiple
16 interconnection agreements with incumbent local exchange carriers, franchise agreements with
17 various municipalities and governmental agencies, and rights-of-way agreements with various
18 individual property owners, governmental agencies, and businesses, and engage in various other
19 duplicative activities. The streamlining of these activities should result in tangible cost savings
20 that will allow MCImetro to compete more effectively in the Arizona market.¹²
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24 ¹² Some of these same efficiencies will redound to the benefit of the Commission Staff and
25 other government agencies since the companies’ numerous reports, tariffs, and other
26 governmental submissions will now be consolidated into fewer sets of filings. The consolidation
also will facilitate the Commission’s monitoring and enforcement efforts.

1 E. The Reorganization Will Preserve a Strong Competitor

2 Another relevant consideration in the Commission's public interest analysis is the effect of
3 a transaction on competition. That issue, of course, is inapplicable in the present case, since New
4 MCI will remain as an independent competitor. The reorganization will not result in the
5 consolidation of competitors or the exit of any carrier from Arizona markets. To the contrary,
6 MCI's emergence from Chapter 11 will *prevent* a reduction in competition that would otherwise
7 have occurred had WorldCom been forced to liquidate or if some competitor were to have
8 acquired all or part of its assets.
9

10 Indeed, the reorganization of WorldCom will promote the development of a competitive
11 telecommunications market in which customers may choose from the diverse service offerings of
12 multiple providers. WorldCom is one of the few substantial remaining competitors to Qwest and
13 other incumbent Bell Operating Companies ("BOCs"), other incumbent local providers and
14 AT&T in local, long distance, broadband, and Internet markets, and its continued presence in
15 those markets will advance the state's and nation's policy of encouraging the development of
16 competitive telecommunications markets.¹³
17

18 As the Commission is aware, WorldCom has long been at the forefront of tremendous
19 innovation, and offers a wide array of voice, data, and Internet services to residential and business
20 subscribers and numerous government agencies. In Arizona, it is one of the top competitors to the
21 incumbent telephone companies in the residential telecommunications market. Last year,
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24 ¹³ See *AT&T Corp. v. Iowa Utils. Bd.*, 525 U.S. 365, 371 (1999); H.R. Rep. No. 104-204, at
25 89 (1995); see also, *In re: Applications of XO Communications, Inc.*, 17 FCC Rcd. 19212, ¶¶ 28-
26 30 (2002) (concluding that reorganized competitive LECs' ability to participate in
telecommunications markets promotes competition and thus furthers the public interest); see
generally, 47 U.S.C. §251 *et seq.* (relevant provisions of the Telecommunications Act of 1996).

1 WorldCom launched “the Neighborhood,” the industry’s first any-distance, all-inclusive offering
2 combining local and nationwide long distance calling from home to consumers for one low
3 monthly price. That service is now available in 48 states and is used by more than 3-1/2 million
4 consumers. More recently, WorldCom introduced a similar offering for small business customers.
5 Another recent service innovation, “MCI Advantage,” is a network-based Internet-protocol (“IP”)
6 communications product that is available to both the enterprise and small business markets in all
7 94 metropolitan service areas where WorldCom owns local service facilities.
8

9 WorldCom has continued to provide these innovative and sophisticated services while in
10 Chapter 11 bankruptcy, and will continue to do so after confirmation of its reorganization plan.
11 Judge Gonzalez, the judge overseeing the bankruptcy cases, recognized that WorldCom not only
12 has “made progress with respect to [its] business plan,” but also is “expanding [its] customer base
13 and moving towards a successful reorganization.”¹⁴ Its ability to do so “yield[s] tangible public
14 interest benefits.”¹⁵
15

16 Moreover, granting the application will protect the interests of existing WorldCom
17 customers. Judge Gonzalez has noted that “[f]or many customers, WorldCom provides the
18 backbone of their business, and the Debtors’ inability to serve such customers, including the
19 United States government, could prove devastating.”¹⁶ If WorldCom does not emerge from
20 bankruptcy and continue to provide services to Arizona customers, those customers and other
21 WorldCom subscribers could suffer significant interruptions of service, and would have to invest
22

23
24 ¹⁴ *In re WorldCom, Inc.*, Memorandum Decision and Order Denying Motions for
Appointment of a Chapter 11 Trustee and Examiner, Case No. 02-13533 (AJG) (unpubl.), at 22
(Bankr. S.D.N.Y. May 16, 2003) (“*May 16 Order*”).

25 ¹⁵ *See In re XO Communications, supra*, 17 FCC Rcd. at ¶ 28.

26 ¹⁶ *May 16 Order*, at 23.

1 time and money to find another provider that can offer them similar or comparable services, most
2 likely at less competitive rates. Expeditiously completing the reorganization would avoid these
3 negative consequences.

4
5 F. WorldCom's Reorganization Will Promote the Public Interest Goals of the
6 Bankruptcy Code

7 Chapter 11 of the Bankruptcy Code reflects Congress's determination that allowing a
8 financially troubled business to rehabilitate itself and be restructured is preferable to, and more
9 economically efficient than, liquidation of its assets.¹⁷ Accordingly, Congress established a
10 reorganization process, "[t]he fundamental purpose of [which] is to prevent a debtor from going
11 into liquidation, with an attendant loss of jobs and possible misuse of economic resources."¹⁸
12 Reorganization allows a debtor to continue to operate in the future, satisfy creditors' claims,
13 protect investors' interests, and produce a return.¹⁹ Rehabilitation also protects investors,²⁰ and
14 furthers the general Bankruptcy Code policy of maximizing the value of the bankruptcy estate.²¹

15
16 These principles establish *a fortiori* that consummation of the reorganization will yield
17 "significant public interest benefits."²² The continued vitality of New MCI after the completion of
18

19 ¹⁷ H.R. Rep. No. 95-585 at 220 (1978), *reprinted*, 1978 U.S.C.C.A.N. 5787.

20 ¹⁸ *NLRB v. Bildisco & Bildisco*, 465 U.S. 513, 528 (1984); *see also*, *United States v. Whiting*
21 *Pools*, 462 U.S. 198, 203 (1983) ("By permitting reorganization, Congress anticipated that the
22 business would continue to provide jobs, to satisfy creditors' claims, and to produce a return for its
23 owners.").

24 ¹⁹ *See Whiting Pools, supra*, 462 U.S. at 203; *Toibb v. Radloff*, 501 U.S. 157, 163 (1991).

25 ²⁰ S. Rep. No. 95-989 at 10 (1978), *reprinted*, 1978 U.S.C.C.A.N. 5796.

26 ²¹ *See Toibb, supra*, 501 U.S. at 163; *see also, Whiting Pools, supra*, 462 U.S. at 203 (noting
that reorganization process reflects Congress' recognition that "the assets of the debtor would be
more valuable if used in a rehabilitated business than if 'sold for scrap'").

²² *In re Applications of Space Station Sys. Licensee, Inc.*, 17 FCC Rcd. 2271, ¶ 44 & n.126
(2002).

1 the bankruptcy process will protect the jobs of tens of thousands of workers and ensure that
2 WorldCom's remaining assets are put to an efficient use.

3 In this case, the vast majority of the creditors (approximately 95 percent) have now
4 indicated that their interests are best served by the preservation of WorldCom's assets as a
5 working entity, not by liquidation of those assets. Indeed, the SEC recently observed, in a filing
6 with the Bankruptcy Court, that "the liquidation of WorldCom would harm creditors, investor
7 victims, and WorldCom's employees, while benefiting only WorldCom's competitors."²³

9 WorldCom's reorganization likely also will help contribute to the revival of the
10 telecommunications industry.²⁴ As one commentator has noted in the Wall Street Journal, "more
11 often than not, the market is well served by the [bankruptcy] process. The sooner the losses are
12 recognized and absorbed, the faster companies and markets can recognize the marginal costs of
13 using the bankrupt enterprise's resources for worthwhile services. All of which will encourage
14 lower prices, expanded demand and greater economic efficiency. The U.S. economy will be the
15 beneficiary."²⁵

17 VI. CONCLUSION
18

19 For the reasons stated above, Applicants respectfully submit that the Commission should
20 determine that the public interest, convenience, and necessity would be furthered by the
21

22 _____
23 ²³ Submission of the Securities and Exchange Commission, Case No. 02-CV-4963 (JSR),
June 6, 2003, at 17.

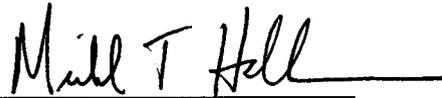
24 ²⁴ See *Dealing with the Telecommunication Industry's Difficulties*, Presentation at the
25 Federal Communications *en banc* hearing, Oct. 7, 2002 (available at
http://ftp.fcc.gov/enbanc/100702/white_presentation.pdf) (presentation of Lawrence J. White,
Stern School of Business).

26 ²⁵ Lawrence J. White, *In Praise of Bankruptcy*, WALL ST. JOURNAL, Jan. 21, 2003.

1 transactions contained in the Plan of Reorganization. Indeed, failure to grant it would directly
2 harm the public interest and potentially create unnecessary conflicts with federal bankruptcy law
3 and a decision by the federal Bankruptcy Court approving the Plan. In light of the circumstances
4 described herein and, in particular, the need to ensure continuity of service to existing customers,
5 Applicants respectfully request expedited treatment to permit Applicants to consummate the
6 proposed transactions described herein as soon as possible, and in any event, no later than
7 November 19, 2003.
8

9 Respectfully submitted this 3rd day of October, 2003.

10 LEWIS AND ROCA LLP

11 

12 Thomas H. Campbell
13 Michael T. Hallam
14 40 N. Central Avenue
Phoenix, Arizona 85007

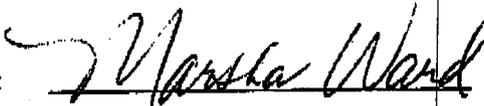
15 **Attorneys for WORLDCOM, INC., for itself and**
16 **on behalf of its Arizona public utility subsidiaries**
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VERIFICATION

I, Marsha Ward, state that I am a State Regulatory Director of WorldCom, Inc.; that I am authorized to make this Verification on behalf of WorldCom, Inc; and that the statements in the foregoing Application are true to the best of my knowledge, information and belief.

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

Executed this 2nd day of October 2003, at Atlanta, Georgia

By: 

Marsha Ward

EXHIBIT 1

Exhibit 1

ARIZONA PUBLIC UTILITY SUBSIDIARIES

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- Intermedia Communications, Inc.
- Brooks Fiber Communications of Tucson, Inc.
- MCImetro Access Transmission Services, LLC
- MCI WorldCom Communications, Inc.
- Metro Fiber Systems of Arizona, Inc.
- MCI WorldCom Network Services, Inc.
- Teleconnect Long Distance Services and Systems Co. d/b/a Telecom USA
- TTI National, Inc.

EXHIBIT 2

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----x
In re :
: **Chapter 11 Case No.**
WORLD COM, INC., et al., : **02-13533 (AJG)**
: **(Jointly Administered)**
: **Debtors.** :
-----x

**STIPULATION AMONG THE OBJECTING PARTIES AND THE DEBTORS
CONCERNING THE AMENDED PLAN AND THE SUPPLEMENT**

WHEREAS, on July 21, 2002 (the "Petition Date") and November 8, 2002, WorldCom, Inc. and certain of its direct and indirect subsidiaries (the "Debtors") commenced cases under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). By Orders dated July 22, 2002 and November 12, 2002, the Debtors' chapter 11 cases have been consolidated for procedural purposes only and are being jointly administered. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code;

WHEREAS, on April 14, 2003, the Debtors filed a disclosure statement (the "Disclosure Statement") and chapter 11 plan of reorganization (the "Plan"). The Disclosure Statement was approved by the Bankruptcy Court as containing adequate information pursuant to section 1125 of the Bankruptcy Code at a hearing on May 22, 2003;

WHEREAS, on July 9, 2003, the Debtors filed a Supplement to Debtors' Disclosure Statement (the "Supplement") and Amended Joint Plan of Reorganization (the "Amended Plan"), and on August 4, 2003 the Debtors filed a Second Supplement to

Debtors' Disclosure Statement (the "Second Supplement" and collectively with the Supplement, the "Supplements");

WHEREAS, the Amended Plan and Supplement provide for, *inter alia*, (i) the merger of Intermedia Communications, Inc.; one of the Debtors, into a subsidiary of WorldCom, with such subsidiary being the surviving entity (the "Intermedia Merger"), (ii) the merger of WorldCom, as reorganized, into a wholly-owned subsidiary that is incorporated in Delaware (the "WorldCom Merger" and, together with the Intermedia Merger, the "Mergers"), and (iii) the consolidation of the Debtor-entities and businesses that comprise WorldCom's local exchange carrier business (the "CLEC Consolidation");

WHEREAS, the Supplement provides that the Debtors believe that certain state regulatory laws, including the regulatory laws of the approximately 31 state Public Utility Commissions (the "PUCs") are preempted pursuant to section 1123 of the Bankruptcy Code and state regulatory review is preempted by section 525 of the Bankruptcy Code. The Supplement also provides that, outside the bankruptcy context, some of the transactions contemplated by the CLEC Consolidation and the Mergers would be subject to the jurisdiction of certain of the 50 state PUCs;

WHEREAS, the Amended Plan provides that the CLEC Consolidation and the Mergers, and any mergers, transfers of assets, dissolutions, consolidations, and other transactions contemplated by the CLEC Consolidation and/or the Mergers, will be approved and effective as of the effective date of the Plan without the need for any further state or local regulatory approvals;

WHEREAS, on July 28, 2003, the California PUC (the "CPUC"), the California Department of Justice (the "CDOJ") and the PUCs and agencies of numerous

other states, including: State of Montana; State of Hawaii, Department of Taxation; Paul G. Summers, Attorney General and Reporter on behalf of the Tennessee Regulatory Authority; State of Minnesota, Department of Commerce and Office of the Attorney General; State of Vermont; State of West Virginia ex rel. Darrell V. McGraw, Jr., Attorney General; State of Missouri, Jeremiah W. Nixon Attorney General; State of Illinois, Lisa Madigan, Attorney General of the State of Illinois on behalf of the People of the State of Illinois; State of South Dakota; State of Oregon and the State of Arkansas (the "Other Objecting States," and together with the CPUC and the CDOJ, the "Objecting Parties") filed or joined in a Limited Objection to the Amended Plan and Supplement ("Limited Objection") disputing that sections 1123 and 525 of the Bankruptcy Code preempted their state and local regulatory authority and preempted regulatory review under state and local regulatory laws; and

WHEREAS, the parties hereto are entering into this stipulation to resolve the Limited Objection;

NOW, THEREFORE, the Objecting Parties and the Debtors, by the undersigned, hereby stipulate and agree as follows:

1. The Debtors agree to and recognize the jurisdiction of the state regulatory enforcement authorities, including, but not limited to, the PUCs, over the Debtors' operations, including any transactions contemplated by the CLEC Consolidation and the Mergers to the extent provided under state law, and to the extent not pre-empted by operation of the United States Bankruptcy Code.

2. The Plan and the Supplement shall retain language that the Debtors may seek to preempt state review of the Mergers and CLEC Consolidation under the doctrine of implied preemption. See e.g., *Baker & Drake, Inc. v. Pub. Serv. Comm'n (In re Baker & Drake, Inc.)*, 35 F.3d 1348 (9th Cir. 1994).
3. Subject to the provisions of Paragraph 7 below, the Debtors do not rely on the theory of express preemption pursuant to Sections 1123 and/or 525 of the Bankruptcy Code in asserting that it is not necessary to receive regulatory authorization to effectuate the CLEC Consolidation and the Mergers, and hereby agree that, upon entry of the order approving this stipulation, any reference to express preemption under Sections 1123 and 525 of the Bankruptcy Code, or otherwise, in the Supplement and the Amended Plan pertaining to the police and regulatory authority of federal, state or local regulators shall be deemed struck and of no force and effect, and all parties shall be prohibited from relying on such language.
4. To the extent the Mergers and CLEC Consolidation or any other matters are covered by state law and regulation, the Objecting Parties assert that no preemption applies to their review. Where the Debtors disagree, the Debtors agree to seek a determination by the Bankruptcy Court, after notice and a hearing as provided herein, as to whether implied preemption precludes review by any

particular state of the Mergers and CLEC Consolidation or any other matters covered by state law.

5. The Debtors filed on August 20, 2003, an application (the "Exemption Application") with the CPUC seeking an exemption from state review of the Mergers and the CLEC Consolidation pursuant to section 853(b) of the California Public Utilities Code, provided, however, that such Exemption Application is not and shall not be deemed a waiver by the Debtors of any and all claims that review of the Mergers and the CLEC Consolidation is preempted as described herein. On or before September 19, 2003, to the extent required by applicable state law, the Debtors shall also file with the PUCs of Other Objecting States applications for approval or exemption from review of the Mergers and CLEC Consolidation (collectively with the Exemption Application, the "Exemption Applications").
6. The CPUC staff and the staff of the PUCs of the Other Objecting States (to the extent applicable) shall use their best efforts to process the Exemption Applications expeditiously.
7. In the event that the Debtors file Exemption Applications and the CPUC or the PUCs of the Other Objecting States have not approved the Debtors' Exemption Applications on or before November 19, 2003, or in the event that circumstances transpire which, in the Debtors' sole discretion, cause the rendering of a

final decision by November 19, 2003 to be unlikely, or in the event a State which has heretofore not objected seeks to assert jurisdiction over the CLEC Consolidation and/or the Mergers, the Debtors reserve any and all rights to reassert that approval by any of the PUCs of the CLEC Consolidation and/or the Mergers is preempted under the doctrine of implied pre-emption or express pre-emption as described herein, and reserve the right to bring this issue before the Bankruptcy Court, provided that the Debtors shall give no less than 14 days written notice, served by facsimile or electronic mail, to all Objecting Parties, the PUCs and any state which heretofore has not objected and seeks to assert jurisdiction over the CLEC Consolidation and/or the Mergers.

8. The PUCs reserve any and all rights to dispute the Debtors' assertion that the PUCs' review of the CLEC Consolidation and/or the Mergers is preempted.
9. The Objecting Parties, upon entry of an order approving this stipulation, shall withdraw without prejudice the Limited Objection, and related joinders thereto, and may renew the Limited Objection and related joinders if the Debtors renew their preemption contentions as provided herein.
10. Each person who executes this stipulation by or on behalf of each respective party warrants and represents that he or she has been

duly authorized and empowered to execute and deliver this stipulation on behalf of such party.

11. The Bankruptcy Court shall retain jurisdiction to hear and determine all matters respecting whether state regulatory review of the transactions contemplated in the Amended Plan and Supplements relating to the CLEC Consolidation and/or Mergers is preempted as described herein.
12. This Stipulation may be executed in identical counterparts, each of which shall constitute an original and all of which shall constitute one and the same.

SO ORDERED, this ____ day of _____, 2003

HONORABLE ARTHUR J. GONZALEZ
UNITED STATES BANKRUPTCY JUDGE

Dated: September ___, 2003

STIPULATED AND AGREED:

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By: _____
Name: _____
Title: _____

STATE OF HAWAII, DEPARTMENT OF TAXATION

By: _____
Name: _____
Title: _____

PAUL G. SUMMERS, ATTORNEY GENERAL AND REPORTER ON BEHALF OF
THE TENNESSEE REGULATORY AUTHORITY

By: _____
Name: _____
Title: _____

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ATTORNEY GENERAL

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Name: _____
Title: _____

STATE OF VERMONT

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Title: _____

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By: _____
Name: _____
Title: _____

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OF ILLINOIS ON BEHALF OF THE PEOPLE OF THE STATE OF ILLINOIS

By: _____
Name: _____
Title: _____

STATE OF SOUTH DAKOTA

By: _____
Name: _____
Title: _____

STATE OF OREGON

By: _____
Name: _____
Title: _____

STATE OF ARKANSAS

By: _____
Name: _____
Title: _____