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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS

Presentation

October 9, 2002
Jefferson City, Missouri
Volume 1

In the Matter of an Investigation)
into the Effects of the Bankruptcy) Case No. TW-2003-0063
of Telecommunications Carriers in)
the State of Missouri.)

KEVIN A. THOMPSON, Presiding,
DEPUTY CHIEF REGULATORY LAW JUDGE.

CONNIE MURRAY,
STEVE GAW,
BRYAN FORBIS,
COMMISSIONERS.

REPORTED BY:
KELLENE K. FEDDERSEN, CSR, RPR, CCR
ASSOCIATED COURT REPORTERS

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1 P R O C E E D I N G S

2 JUDGE THOMPSON: We'll go on the record at
3 this time.

4 Good morning. My name is Kevin Thompson. I'm
5 the Regulatory Law Judge assigned to preside over this
6 matter, which is an Investigation into the Effects of the
7 Bankruptcy of Telecommunications Carriers in the State of
8 Missouri, Case No. TW-2003-0063.

9 At this time we will take entries of
10 appearance, beginning with the Staff.

11 MR. ANDERSON: Good morning, your Honor. My
12 name is Eric Anderson representing the Staff of the Missouri
13 Public Service Commission. Our address is 200 Madison
14 Street, P.O. Box 360, Jefferson City, Missouri 65102.

15 JUDGE THOMPSON: Thank you, Mr. Anderson.
16 WorldCom?

17 MR. LUMLEY: Good morning, Judge. Carl Lumley
18 of the Curtis Oetting law firm representing the WorldCom
19 companies that are part of this matter. With me today is
20 Neal Larsen, the regional executive for law and public
21 policy, and he'll be making the presentations for the
22 company today.

23 JUDGE THOMPSON: Thank you, Mr. Lumley.
24 Office of the Public Counsel?

25 MR. DANDINO: Good morning, your Honor.

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1 JUDGE THOMPSON: Good morning.

2 MR. DANDINO: Michael Dandino, Office of the
3 Public Counsel, Post Office Box 7800, Jefferson City,
4 Missouri 65102, representing the Office of the Public
5 Counsel and the Public.

6 JUDGE THOMPSON: Thank you.

7 Southwestern Bell?

8 MR. LANE: Thank you, your Honor. Paul Lane
9 appearing on behalf of Southwestern Bell Telephone, LP,
10 doing business as Southwestern Bell Telephone Company. My
11 address is One SBC Center, Room 3520, St. Louis, Missouri
12 63101.

13 JUDGE THOMPSON: Thank you, Mr. Lane.

14 NuVox? Isn't that our other intervenor?

15 Okay. Let the record reflect that NuVox is not present.

16 Do we have any preliminary matters at this
17 time? Any of the parties have anything to bring to the
18 attention of the Commission? Mr. Anderson?

19 MR. ANDERSON: Your Honor, I was wondering,
20 with your, I believe it was, October 9th Order Directing
21 Notice, you said participants will not be permitted to
22 conduct any discovery without prior approval by the
23 Commission. Procedurally, what were you --

24 JUDGE THOMPSON: That's not referring to Staff
25 or Public Counsel who have separate statutory authority to

1 conduct discovery which, since we're not abridging it, the
2 question of whether we can is not before us.

3 Rather, it is the intention of the Commission
4 to offer participation without intervention to interested
5 carriers, and I think that was explained in the Order
6 Granting Intervention, that there is -- while there's
7 sensitivity to the concerns that WorldCom very properly
8 expressed that this not become some sort of concurrent
9 bankruptcy forum, that the Commission is certainly
10 interested in receiving information from other carriers who
11 are affected so that the Commission may better understand
12 what the effects and possible ramifications are of carrier
13 bankruptcies.

14 So, in fact, one thing we need to figure out
15 right now is exactly what the procedure is that we
16 anticipate this morning. What I will do is ask each party
17 or each participant to give an opening statement if they
18 would like. We will then proceed to the presentation by
19 WorldCom.

20 I do not anticipate any cross-examination,
21 and, in fact, I will not permit participants. I do not
22 anticipate any from Staff and Public Counsel. It's not what
23 this hearing, this presentation is intended for. There will
24 very, very likely be questions from the Commission, however.

25 Is that acceptable to everyone, the order of

1 procedure that I have outlined? Mr. Lumley?

2 MR. LUMLEY: Your Honor, we don't really have
3 a separate opening planned. We just have the remarks.

4 JUDGE THOMPSON: We can skip that part if
5 you'd like, but I wanted to give the other participants an
6 opportunity to say something.

7 MR. LUMLEY: I understand. Also, logistically
8 would you want Mr. Larsen at the podium, is that acceptable,
9 or do you want him in the witness seat or --

10 JUDGE THOMPSON: I think he could be either
11 place, wherever he's most comfortable. Perhaps he would
12 like to be at the podium and looking directly at the
13 Commissioners, or he can sit down for it, but I will swear
14 him.

15 Mr. Lane, do you have opening remarks?

16 MR. LANE: I do have some comments, your
17 Honor. I could do them after Mr. Larsen.

18 JUDGE THOMPSON: Would you prefer to do them
19 after or before?

20 MR. LANE: Sure. After's fine.

21 JUDGE THOMPSON: After. Okay. That's fine.

22 Mr. Dandino?

23 MR. DANDINO: I don't have any opening
24 comments.

25 JUDGE THOMPSON: Okay. Mr. Anderson?

1 MR. ANDERSON: No, your Honor.

2 JUDGE THOMPSON: Well, in that case, we will

3 skip opening comments and just go directly to the

4 presentation by Mr. Larsen.

5 So at this time I'm going to recess briefly,

6 go get the Commissioners and bring them down, and then we

7 will go directly into Mr. Larsen's presentation. Thank you.

8 We are in recess.

9 (A recess was taken.)

10 JUDGE THOMPSON: We'll go back on the record

11 at this time.

12 Mr. Larsen, good morning, sir. Are you going

13 to use the podium or would you like to use the witness seat?

14 MR. LARSEN: This is fine if it's okay with

15 the Commissioners and yourself.

16 JUDGE THOMPSON: That's all right, as I said

17 earlier. Go ahead and state your name, sir.

18 MR. LARSEN: My name is Neal Larsen.

19 (Witness sworn.)

20 JUDGE THOMPSON: Thank you, sir. Please

21 proceed.

22 MR. LARSEN: Thank you. Commissioners, Judge

23 Thompson, my name is Neal Larsen and I'm MCI WorldCom's

24 regional executive for law and public policy for the

25 southern region.

1 As the Commission is certainly well aware,
2 WorldCom and virtually all of its active domestic
3 subsidiaries filed for Chapter 11 reorganization under
4 federal bankruptcy law in the U.S. Bankruptcy Court for the
5 Southern District of New York on July 21st, 2002.

6 Since that time, more than 1,500 motions,
7 petitions and orders have been filed in that case. Much of
8 that activity took place before we filed our first quarterly
9 report with the Commission and is summarized in that report.

10 And one of the principal goals of a Chapter 11
11 proceeding is to reorganize the capital structure of the
12 company and emerge from bankruptcy as a viable, financially
13 sound company. During that reorganization process, the
14 company will continue to operate in the ordinary course of
15 business providing service to customers throughout Missouri,
16 the country and around the world.

17 Now, I know that your major concerns center
18 around what all of this will mean to Missouri customers and
19 other Missouri telecommunications companies, and I have
20 prepared remarks this morning in which I'll address the
21 specific questions that we've received from the Staff, and I
22 will also attempt to answer any other questions that you may
23 have.

24 Fundamentally, Missouri customers have not and
25 should not generally see any change as a result of this

1 reorganization effort. WorldCom is continuing to offer
2 local and long distance service as before to its hundreds of
3 thousands of Missouri customers.

4 WorldCom's residential customers receive their
5 local service via the UNE platform arrangement. Our
6 business customers receive local service over WorldCom's own
7 local network facilities, and, of course, MCI has had its
8 facilities-based nationwide long distance network for many,
9 many years.

10 We recently announced that we had signed up
11 our one-millionth customer nationwide for MCI's local and
12 long distance product, The Neighborhood, which is now
13 available in Missouri as well as 31 other states. And on
14 the business customer side, WorldCom has lost none of its
15 100 largest national customers.

16 The bottom line is that WorldCom does not
17 intend to discontinue service as a result of this
18 reorganization.

19 Concerning customer notice, Missouri customers
20 are being provided the following information in their
21 monthly bills regarding the WorldCom bankruptcy filing:

22 Now more than ever MCI remains committed to
23 providing the most competitive, innovative products as well
24 as the best customer service possible. You can count on us
25 to meet your communications needs today and tomorrow. We

1 appreciate your business and will work hard to keep your
2 trust and continued patronage.

3 Customers that are billed directly by us
4 receive this message in both the August and September
5 billings. Customers who are billed by the ILECs received
6 the message in September and will receive it in the bills
7 again this month.

8 I understand that the Commission has asked how
9 much advance notice WorldCom customers would be provided in
10 the event WorldCom discontinued service.

11 Of course, WorldCom does not intend to
12 discontinue service in Missouri, but in the very unlikely
13 event that any service were to be discontinued, we would
14 provide as much notice as possible and at least 30 days
15 prior notice to customers in order to provide the end users
16 with an orderly transition to another carrier.

17 The Staff had also inquired about the
18 application of the PSC's snap-back rule, and from my
19 understanding of that rule, I don't think it applies in this
20 case because WorldCom is not reselling basic local
21 telecommunications service.

22 But regardless of that application, in the
23 unlikely event that WorldCom might discontinue local service
24 in Missouri, we would provide end users with as much notice
25 as possible and certainly at least 30 days prior notice.

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1 I'd also been asked to address the impact of
2 the Chapter 11 filing on other Missouri telecommunications
3 companies.

4 Concerning current obligations, the bankruptcy
5 court on August 14th approved WorldCom's motion to provide
6 adequate assurance to other carriers for the payment of
7 post-petition bills. Accordingly, WorldCom is obligated to
8 pay on a timely basis all undisputed invoices, and other
9 carriers are obligated to continue providing services to
10 WorldCom. WorldCom and the vendors must negotiate in good
11 faith to establish an expedited dispute resolution procedure
12 for any disputes involving current invoices.

13 And as a part of that order the bankruptcy
14 court granted the other carriers the right to petition the
15 court for reconsideration of that order if there were to be
16 a material or adverse change to WorldCom's liquidity or
17 other financial condition, and to then seek an order
18 requiring WorldCom to provide deposits or letters of credit
19 or to prepay for future services.

20 The court also directed WorldCom to provide
21 other carriers a weekly report showing WorldCom's
22 unrestricted cash and the availability of cash under the
23 debtor in possession financing arrangements, subject to the
24 carrier executing an appropriate confidentiality agreement.

25 I'd also been asked to address the amounts

1 owed to and from other carriers. When the Chapter 11
2 petition was filed, WorldCom owed companies like
3 Southwestern Bell money for services such as faxes, charges
4 and UNE usages. At the same time, Southwestern Bell owed
5 monies to WorldCom for things such as wholesale services,
6 reciprocal compensation, access charges and receivables for
7 long distance billings.

8 The bankruptcy court has exclusive
9 jurisdiction over the payment of pre-petition debts and the
10 amounts which creditors will ultimately receive. The court
11 has ordered WorldCom and the other carriers to negotiate in
12 good faith to establish procedures for the mutual setoff of
13 payments for both pre-petition and post-petition services.

14 To the extent that WorldCom and the utility
15 company are unable to agree on these procedures, either
16 party may seek relief from the bankruptcy court.

17 These discussions are ongoing with
18 Southwestern Bell and other companies. I think at this
19 point we can only speculate as to the amounts that will
20 ultimately be paid after any setoffs.

21 WorldCom is currently planning to file its
22 plan of reorganization with the bankruptcy court during
23 March of next year. Such a Chapter 11 plan is, in effect, a
24 contract among the parties, an interest in which the debt is
25 restructured.

1 JUDGE THOMPSON: Could you speak up a little
2 bit, sir?

3 MR. LARSEN: Sure. The plan will be developed
4 by management and counsel, presented to the creditors, voted
5 on, and if confirmed by the bankruptcy court it will be
6 implemented. It will really not be until that time that we
7 know which creditors will be paid and how much they will be
8 paid.

9 WorldCom is currently in a relatively good
10 cash position. When the bankruptcy filing was made, the
11 court approved immediate financing of \$750 million and
12 preliminarily approved up to \$2 billion in debtor in
13 possession financing.

14 None of this \$750 million credit line has been
15 tapped into, and it's now anticipated that the request for
16 debtor in possession financing will be more in the 1.25 to
17 \$1.5 billion range. This lower than expected financing
18 requirement is due to cost-cutting measures and to higher
19 customer retention than initially anticipated. Currently
20 WorldCom has 600 million in cash on hand.

21 I hope that these remarks have been helpful
22 and that I've addressed most of your questions and concerns.
23 I'll be more than pleased to try and answer any other
24 questions you may have either now or in the future. Thank
25 you.

1 JUDGE THOMPSON: Thank you, Mr. Larsen.
2 Questions from the Bench, Commissioner Murray.
3 COMMISSIONER MURRAY: Thank you, Judge.
4 QUESTIONS BY COMMISSIONER MURRAY:
5 Q. Good morning, Mr. Larsen.
6 A. Good morning.
7 Q. Thank you for being here to answer some
8 questions for us today. I have several questions.
9 First of all, does WorldCom or do any of its
10 subsidiaries owe any pre-petition regulatory fees to the
11 Missouri Public Service Commission, do you know?
12 A. Not that I'm aware of.
13 Q. And are you aware of whether there are any
14 sales and use taxes owed to the State of Missouri or its
15 political subdivisions? And I'm talking about pre-petition.
16 A. Commissioner, I'm not personally aware of what
17 obligations there may be to the State or whether there are
18 any unpaid obligations to the State.
19 Q. That information is available, though, I'm
20 sure, is it not?
21 A. We certainly could find that, I'm sure.
22 Q. And I know that you have been given discretion
23 to -- as to whether any or all of the pre-petition
24 regulatory or sales or use taxes would be paid?
25 A. Correct.

1 Q. I would be interested in knowing if you've
2 taken a position on that.

3 A. I can get back with you on exactly what may
4 have happened on Missouri's specific regulatory fees and
5 taxes.

6 Q. All right. And I would also like to know if
7 there are currently any disputed invoices with respect to
8 post-petition telecommunications services rendered by other
9 Missouri carriers.

10 A. Commissioner, I don't know specifically.
11 There are generally disputes over access billing all the
12 time. So I wouldn't be surprised that there are not ongoing
13 disputes.

14 Q. Now, you mentioned that there would be an
15 expedited dispute resolution procedure as called for by the
16 bankruptcy court and that the carriers must negotiate in
17 good faith to establish that procedure. Is that for
18 post-petition disputes?

19 A. Yes.

20 Q. And from what I understand, and correct me if
21 I'm wrong, but it sounds as if WorldCom is seeking to be
22 relieved of at least some of the pre-petition debt that it
23 or its subsidiaries owe to other telecommunications carriers
24 in Missouri. Would that be accurate?

25 A. Well, I wouldn't say that we're attempting to

1 avoid paying -- I mean, we can't pay any pre-petition
2 obligations without the bankruptcy court's approval.

3 Q. Certainly, that's a given.

4 A. And the creditors are fighting all of that out
5 and will continue to fight that out in the bankruptcy court
6 as to exactly who gets what.

7 Q. And don't you make the initial proposal?

8 A. We will make an initial proposal, yes, and
9 that will be part of the plan of reorganization.

10 Q. And it's unclear at this point whether you
11 will be seeking to be relieved of any of the pre-petition
12 debt owed to other telecommunications carriers?

13 A. I'm not at all -- I mean, I can't speculate on
14 what might happen at that point.

15 Q. And I believe you said you don't know what the
16 total pre-petition debt owed to other telecommunications
17 carriers in Missouri would be; is that correct?

18 A. Well, because of the disputed amounts and
19 setoff issues, I think it's -- it's premature to try and put
20 dollar figures on what those -- what those amounts will
21 actually turn out to be.

22 Q. When do you think those amounts will be
23 determined?

24 A. Well, certainly prior to the plan of
25 reorganization. All of this is being worked on now, but I

1 can't give you a specific date.

2 Q. If WorldCom is relieved of significant amounts
3 of -- or significant levels of debt that are owed to other
4 telecommunications carriers and then emerges from
5 bankruptcy, is it possible that that would place WorldCom
6 and its subsidiaries at a competitive advantage over other
7 carriers whose debt won't be paid?

8 A. There's been a lot of speculation in the press
9 about that. I don't know that we would be in any favored
10 position coming out of bankruptcy.

11 Q. Your website explains that Chapter 11 of the
12 bankruptcy code is often used by a company that has a
13 fundamentally strong business and loyal customer base to
14 restructure its financial position and debts to
15 strategically strengthen its business.

16 WorldCom falls into that category, your
17 website says, and I'm wondering how you would defend against
18 an allegation that WorldCom's strategy is indeed to
19 strengthen its business and become profitable again at the
20 expense of other telecommunications carriers?

21 A. Again, there's been a lot of speculation about
22 that in the press, and I think you have to keep in mind that
23 Chapter 11 bankruptcy is not, I don't believe, undertaken
24 frivolously by anyone, and a lot of people are hurt on all
25 sides when something like this happens, particularly the

1 shareholders who will tend to likely lose all equity
2 interest.

3 So I don't think that, you know, anyone can
4 accuse us of doing this to benefit ourselves because
5 obviously officers and employees have lost a great deal of
6 money and have lost all of their equity in the process.

7 Q. Okay. I want to ask you about how this all
8 plays in with your non-U.S. entities. Since there's no
9 restructuring outside the United States when bankruptcy is
10 declared, only termination of operations is allowed, you've
11 not declared bankruptcy anywhere except within the United
12 States; is that correct?

13 A. Yes.

14 Q. So what safeguards are employed when a
15 multi-national corporation such as WorldCom files for
16 Chapter 11 for its U.S. operations but continues its
17 non-U.S. operations?

18 In other words, what prevents WorldCom from
19 subsidizing its non-U.S. operations through the
20 restructuring of its U.S. operations?

21 A. Keep in mind that there are a lot of people
22 watching everything that's being done, the bankruptcy court,
23 the monitors that have been appointed by the bankruptcy
24 court, the creditors committee. There are a lot of
25 interested parties who will make it their job to be very

1 diligent in making sure that moneys are not siphoned off or
2 any other activity like that takes place.

3 Q. So you think the fishbowl effect is a
4 significant safeguard?

5 A. It's very real.

6 Q. Do you know if any of your Missouri customers,
7 and I'm talking about your larger Missouri customers who
8 have contractual agreements, have asked to terminate their
9 contracts?

10 A. Not that I'm aware of, Commissioner.

11 Q. If they would ask to do so, is it WorldCom's
12 and the subsidiary's position that they would be held to
13 those contractual terms?

14 A. Those contracts I believe are -- would be
15 considered an asset and certainly not something that we
16 could -- that we could waste.

17 Q. So in other words, they might fall into the
18 jurisdiction of the bankruptcy court if they're considered
19 an asset?

20 A. Well, what I mean is that I don't think that
21 we could give them -- we need to defend them. We can't give
22 them away. We would need to enforce them.

23 Q. I wanted to reference something on your
24 website again, if I can find it here. In a section entitled
25 "What Happens Next?" on WorldCom's website, you list

1 seven -- you list several things that expected following --
2 expected to follow, and the last one of those things that
3 were listed is that WorldCom exits Chapter 11 operating a
4 streamlined, transparent, more efficient business based upon
5 the highest ethical standards. How will it be streamlined?

6 A. There are and continue to be discussions of
7 selling off some of the assets that were acquired in the
8 WorldCom acquisition period that perhaps no longer fit in
9 with the current business plans, but that does not include
10 things like residential long distance and residential local.

11 Some of -- you know, they're talking about
12 we've already gotten rid of the exit and the wireless resale
13 business, was a good example of something I believe they're
14 referring to there in the streamlining the company, not
15 major business focus areas.

16 Q. And I was interested in the use of the word
17 transparent, and I was wondering how, coming out of
18 Chapter 11, the business will be more transparent?

19 A. I think that's referring to it being
20 transparent to customers that, in fact, anything has
21 happened.

22 Q. And then lastly, the statement that it would
23 be based upon the highest ethical standards, what will
24 ensure that going forward?

25 A. Well, be assured that there's no group of

1 people more disturbed by the things that have transpired
2 than the bulk of the employees of WorldCom, especially the
3 long-term employees like myself.

4 I think there's a, as you can see in the
5 papers every day, a concerted effort to identify and pursue
6 wrongdoers and get back on a strong ethical standard.

7 Q. Because Chapter 11 can enhance a company's
8 ability to get financing since lenders are repaid first,
9 that is ahead of other creditors, and a company can emerge
10 stronger following bankruptcy and it's still in control of
11 its assets, still in control of its business, do you think
12 all those pluses for reorganization under Chapter 11 are
13 likely to cause more companies to be opting for bankruptcy?
14 And I'm talking about more telecommunications carriers.

15 A. I don't think anyone undertakes Chapter 11
16 unless they have to, because as I said earlier, there are
17 lots and lots of people everywhere that suffer some sort of
18 harm. So no, I don't think it's undertaken frivolously, and
19 I don't think it's undertaken to improve your -- improve
20 your line.

21 Q. Do you know if there's anything that we as
22 regulators could do to protect Missouri carriers from
23 getting left holding significant levels of uncollectible
24 debt going forward?

25 And I'm not talking about specifically with

1 WorldCom or companies that have already declared bankruptcy,
2 but have you thought about whether there is anything that we
3 should be doing to protect Missouri carriers?

4 A. Commissioner, I'm not sure that the
5 telecommunications business is really any different than any
6 other business in that it's a business risk, I think, that
7 perhaps one of your customers, one or more of your customers
8 gets into financial trouble and owes you money.

9 Whether you're running a lumberyard or a long
10 distance company, you run the risk, a common business risk
11 of anyone, that one of your customers is going to be
12 bankrupt and not be able to pay you.

13 So I'm not sure that there's anything in
14 particular that can be done to protect telecommunications
15 carriers other than anyone in general business.

16 Certainly MCI and WorldCom faced numerous
17 bankrupt customers over the years, particularly in providing
18 wholesale services to long distance carriers. We were
19 constantly confronted with bad debt and bankruptcies.
20 Winstar owed a phenomenal amount of money to WorldCom when
21 they filed Chapter 11.

22 Q. Were you required to continue to do business
23 with them and extend credit post-petition?

24 A. As far as I know, we were. They weren't
25 around very long. They were -- it was liquidated, sold and

1 liquidated relatively quickly.

2 Q. And I see that as a distinction between
3 telecommunications carriers and other general businesses in
4 that I believe that if you were just a, I don't know, take
5 an automotive business as an example, and you had supplied
6 product or services to another company that ended up in
7 bankruptcy, you would not be required to continue to offer
8 services or supply products to that bankrupt company while
9 it was reorganizing, is my understanding.

10 Whereas, in the telecommunications industry,
11 those carriers who may be owed significant levels of debt
12 are still required to continue to extend credit
13 post-petition. Is that not the case?

14 A. Well, except that they're getting paid, and if
15 they're not getting paid currently, then they can require
16 deposits or payment in advance.

17 Q. Only if you come in default on the
18 post-petition and it's undisputed, an undisputed default; is
19 that correct?

20 A. Well, no. If there's a material change in the
21 financial or liquidity of the company, too, they can go back
22 to the court and ask for deposits or payment in advance.

23 So we not only have to be current in payments,
24 but we also have to be maintaining sufficient liquidity and
25 cash position going forward or those companies like

1 Southwestern Bell can go back to the court and say, okay, I
2 want a deposit, I want payment in advance.

3 Q. Okay.

4 A. So it's a bit more than just continuing to
5 extend credit, because it's dependent upon getting paid,
6 plus our financial condition that they have a weekly view
7 of.

8 Q. Now, I just want to touch briefly on something
9 that I'm really a little bit concerned about and I'm a
10 little bit confused about, and maybe you can help clarify
11 that. Is there anything, to your knowledge, in the
12 bankruptcy law that would prevent a company from
13 reorganizing and discharging debts where securities fraud is
14 involved?

15 A. Not that I'm aware of.

16 Q. So if corporate level executives were
17 convicted of fraud, which I think would be very arguable had
18 an effect upon the bottom line of the company, the company
19 would not be prevented from discharging debts in bankruptcy
20 as a result of the fraud?

21 A. I don't believe that there's a requirement or
22 a bar in the bankruptcy law.

23 Q. Now, there have been reports in the news media
24 that the company would be seeking return of certain bonuses
25 to former executives that would have been indicted and/or

1 pled guilty to fraud.

2 If that is the case, if that happens, would
3 any of the recovered money be applied to reimbursing
4 creditors or would it go to trying to make shareholders
5 whole, or do you know?

6 A. There have been suits filed to address the
7 first part of your question, to recoup some bonuses that
8 have been paid. I think any recovery would simply be a
9 general asset of the company. I'm not sure it would be
10 applied to any -- anything in particular other than the
11 overall how the assets are used to reorganize and whatever
12 creditors may eventually be paid, be that in money or in
13 equity or however that's decided.

14 Q. That would not be at the discretion of the
15 company, then, that would be in accordance with the way the
16 bankruptcy court treated it; is that your understanding?

17 A. I honestly don't know, but I don't know that
18 there would be -- that the money would be treated
19 differently than any other cash asset at that point.

20 Q. Okay. Thank you for answering my questions,
21 and I'm going to pass it along to --

22 A. Thank you.

23 Q. -- the other Commissioners.

24 JUDGE THOMPSON: Thank you, Commissioner
25 Murray. Commissioner Gaw.

1 COMMISSIONER GAW: Thank you, Judge.

2 QUESTIONS BY COMMISSIONER GAW:

3 Q. Good morning, sir.

4 A. Good morning.

5 Q. If you would, just to give me some
6 perspective, your position is what again?

7 A. Law and public policy.

8 Q. And your official title?

9 A. Regional executive.

10 Q. All right. And who do you report to?

11 A. I report to a man named Jim Lewis.

12 Q. What's his position?

13 A. Senior Vice President - State Law and Public
14 Policy.

15 Q. And who does he report to?

16 A. Mike Salsbury, the general counsel.

17 Q. All right. And you're an attorney?

18 A. Yes.

19 Q. If you could, could you give me any kind of an
20 estimate about how long this bankruptcy is likely to take?

21 A. The latest public statements that I've seen
22 are discussing emerging in March of next year, and that's
23 coming from the restructuring, chief restructuring officer
24 that's been hired.

25 Q. All right. And at that point in time, is

1 there any anticipation about the amount of unsecured debt
2 that might be discharged?

3 A. I haven't seen any numbers on that.

4 Q. Can you give me an approximate amount, if you
5 know, of what the debt was coming in to the bankruptcy of
6 WorldCom and its affiliates?

7 A. Well, there was bond debt of approximately
8 \$30 billion. I don't know of other obligations.

9 Q. 30 how much?

10 A. Billion.

11 Q. 30 billion? And you don't know of other
12 obligations or you don't know that there were?

13 A. I don't know the total of that, Commissioner.

14 Q. You think there were other obligations?

15 A. I'm sure there were.

16 Q. All right. Do you know what the total
17 asset -- total assets were of the companies at that time,
18 approximately?

19 A. Well, one of the problems is that financials
20 are being restated.

21 Q. All right.

22 A. So it's difficult to -- and, of course,
23 goodwill is in those original asset numbers, which now needs
24 to be backed out by everybody.

25 Q. Because goodwill -- the goodwill has been

1 dissipating?

2 A. Well, it's not just us. I mean, goodwill
3 needs to be gotten rid of by most folks as an asset. So
4 it's really -- you know, it's -- until the financials get
5 restated, we really can't talk about what the asset number
6 would be.

7 Q. You don't believe that the figures as
8 initially stated in the bankruptcy filing were probably
9 accurate or wouldn't be accurate today in any event?

10 A. Well, I think things are -- you know, things
11 continue to change and the value of things continue to
12 change dramatically.

13 Q. Give me an idea about, if you would, the
14 changes that have occurred in regard to stock prices of
15 WorldCom over the last couple of years.

16 A. Well, it's gone from \$46 to 10 cents.

17 Q. Is that approximately what it is today?

18 A. Yes.

19 Q. In the last -- since the filing of the
20 bankruptcy, what level has the stock price been? Has it
21 been consistently that low or has it been dropping down to
22 that level?

23 A. It's been about the same.

24 Q. All right. Do you know how many --

25 COMMISSIONER GAW: And if I get into

1 information that's deemed highly confidential, Judge, I know
2 that I do that from time to time without realizing it. Just
3 let me know.

4 JUDGE THOMPSON: Well, Commissioner, I don't
5 believe there has been a Protective Order entered.

6 COMMISSIONER GAW: I may ask a question,
7 though, that may be outside of that. If I get into that, I
8 just want you to know it.

9 JUDGE THOMPSON: Yes, sir. I would instruct
10 counsel, then, that if the Commissioner should ask a
11 question that appears to require the revelation of
12 information that you believe should be designated highly
13 confidential or proprietary, that you will raise an
14 objection promptly.

15 Thank you.

16 BY COMMISSIONER GAW:

17 Q. Sorry, Mr. Larsen. I want to know if you can
18 tell me the approximate number of Missouri customers that
19 your company has?

20 A. Well, I said hundreds of thousands, and we
21 have maintained that the customer counts are confidential
22 information. They've been filed with the Commission.

23 Q. Can you give me some sort of an idea about how
24 many of that, what percentage of your figures might be local
25 exchange as opposed to long distance?

1 A. No. The vast bulk of those are residential
2 long distance customers.

3 Q. So in the event, and I'm not -- we obviously
4 don't know what's going to happen in the future, but in the
5 event that WorldCom was unable to survive, we'd have a
6 significant number of individuals who would have to find
7 other long distance service in the state --

8 A. Correct.

9 Q. -- is that right?

10 Would you say that figure for long distance is
11 hundreds of thousands?

12 A. Yes.

13 Q. And do you have any opinion about how that
14 might impact the marketplace in regard to other carriers
15 being able to handle that number of customers? And I'm --
16 we're really -- we're not just talking about Missouri here.
17 I'm talking about the number of customers nationally that
18 might have to find other service within some window of time.
19 What kind of impact might that have?

20 A. Commissioner, I don't think there's any
21 shortage of long distance capacity. The danger would be in
22 less competitors.

23 Q. All right. I want to go there in just a
24 minute, Mr. Larsen. I want to focus for a moment on
25 WorldCom itself. We are in a position here where some of

1 your folks upstream, leaders of the corporation, have been
2 in the news quite a bit lately, as you know. I'm sure it's
3 not something that you appreciate.

4 How much of what we're dealing with with
5 WorldCom is due to the actions of WorldCom's leadership over
6 the course of the last few years, if you can answer that
7 question without causing your own security to be at risk?

8 A. Well, I don't think it's disputed,
9 Commissioner, that the admission that numbers had to be
10 restated precipitated the Chapter 11 filing. So I think
11 there's certainly a direct connection there.

12 Q. Can you help develop that a little bit? When
13 we're talking about how we arrived at where we are with
14 WorldCom being in bankruptcy, and there are -- I suspect
15 there are other elements to this, and I want to get into
16 them in a minute, but when we're dealing with this
17 particular issue, the general -- the general issue in regard
18 to the accounting questions that are currently being
19 scrutinized by many, can you explain what was going on with
20 that in laymen's terms?

21 A. Well, after -- after Bernie Ebers left and
22 there was new management installed, progress was being made
23 on refinancing the bond debt. When the disclosures were
24 made by the company about the need to restate the numbers,
25 those negotiations, of course, fell apart, and that

1 precipitated the necessity to file.

2 Q. So you were in the middle of negotiations to
3 restructure some debt, refinance?

4 A. Exactly.

5 Q. And at that point in time when --

6 A. Right. Additional letters of credit were
7 being negotiated --

8 Q. Negotiated, right.

9 A. -- to replace others that were expiring, and
10 there was progress being made on that.

11 Q. All right.

12 A. Which stopped with the -- with the accounting
13 revelations.

14 Q. And the accounting revelations were in a
15 nutshell what?

16 A. Capitalizing expenses.

17 Q. And that means that rather than -- that
18 expenses that normally would have been shown over a period
19 of years -- excuse me, not expenses, but accounting methods
20 of deduction would be shown over a period of years instead
21 of being expensed out in one year, is that accurate, or is
22 it the other way around?

23 A. Yes, that's what the -- I mean, expenses or
24 outlays that should have been expensed in the current year
25 were spread out over several years, and that's what the

1 restatements will be doing.

2 Q. And when that -- when that was occurring, then
3 the books looked a whole lot healthier --

4 A. Yes.

5 Q. -- than they really were under accounting
6 standards that were supposed to be followed?

7 A. Correct.

8 Q. Of course, and when that came out, I'm sure it
9 probably didn't help stock prices either?

10 A. Not at all.

11 Q. What's the impact of falling stock prices to a
12 corporation when they fall significantly?

13 A. Well, certainly the capital structure becomes
14 weaker and weaker, which, you know, one can argue that it
15 shouldn't make any difference what the stock price is, but,
16 of course, in the business world it makes a lot of
17 difference what the stock price is.

18 Q. Can you explain that?

19 A. Well, I think as far as the availability of
20 capital, attracting additional capital, it's very difficult
21 when the stock is trading at very low prices.

22 Q. It's very difficult to get -- to get
23 additional loans from outside entities, I assume?

24 A. Yes.

25 Q. Your debt to capital ratio starts moving?

1 A. Yeah. I mean, the value of the equity is
2 important. Those ratios are important, most important to
3 investors and to lenders.

4 Q. And all of that -- all of that gets at some
5 point in time into a spiral, doesn't it?

6 A. It can.

7 Q. One impacts the other negatively, and that
8 impacts the first negatively, and you go round and round and
9 down; is that correct?

10 A. That certainly can happen.

11 Q. How much money is associated with payments of
12 bonuses and payments or loans to corporate executives over
13 the last few years, do you know?

14 A. Well, I think there's the \$400 million loan to
15 Bernie Ebers. I think that's the only thing that I'm aware
16 of of any significance.

17 Q. Do you know what salary he was drawing while
18 he was with the company?

19 A. I think the salary was about a million dollars
20 a year.

21 Q. Was he drawing bonuses in addition to that?

22 A. Certainly in most years.

23 Q. Do you know what they averaged or range of
24 them would be?

25 A. We can -- I mean, that's all public

1 information, but I don't honestly recall.

2 Q. That's all right. If you have that
3 information --

4 A. They're all in the annual reports. We can get
5 that to you.

6 Q. We may have that here. I don't know. But if
7 not, if we could have that, I'd like to have that. Not just
8 him, other high-level corporate executives.

9 Let me ask you on a different vein here for a
10 little bit. WorldCom isn't the only company,
11 telecommunications company that's in bankruptcy or has been
12 in bankruptcy over the last year to year and a half; is that
13 correct?

14 A. Yes.

15 Q. I think we just saw a telecommunications
16 company in the press that had emerged from a short duration
17 in bankruptcy court that had discharged several million
18 dollars of debt in restructuring. I think it was maybe
19 Birch. Is that your understanding? Do you know?

20 A. That may be what you're referring to.

21 Q. You're not familiar with that?

22 A. I've seen something about it, but not -- I
23 couldn't discuss any details.

24 Q. That's all right. But there are some other --
25 would you say that -- do you have any idea whether there are

1 significant numbers of telecommunications companies that
2 have gone through the bankruptcy process over the last few
3 years?

4 A. I think there are -- there are certainly a
5 number of them. I don't know whether -- what that ratio
6 might be to the total.

7 Q. Would you say, if you know, whether or not the
8 number of telecommunications companies that are going
9 bankrupt in any way in regard to those that are in existence
10 in any way is different than other industries?

11 A. I'm not sure that it is, Commissioner. I
12 think bankruptcies in general are very high at the moment
13 with the economy in the state that it's at.

14 Q. So do you think that the 1996 Act,
15 Telecommunications Act is working?

16 A. I think it is beginning to work. I think
17 we're finally beginning to see the emergence of at least a
18 noticeable amount and availability of competition for local
19 service. I think our Neighborhood product is the first one
20 to be virtually nationwide and be the subject of nationwide
21 mass marketing.

22 Q. What is that product, by the way?

23 A. That's local service and long distance
24 unlimited for a set price.

25 Q. Okay. And from a -- from the standpoint of

1 potential changes in the '96 Act in regard to ability of
2 competitive carriers to acquire unbundled network elements,
3 are you aware of any changes on the horizon that might have
4 an impact on the ability of telecommunications carriers to
5 compete for local service?

6 A. Well, there's certainly a number of things
7 under discussion, particularly at the FCC right now; in
8 particular, potential limiting of the number of UNEs; in
9 particular, possible limitation of the unbundled switching,
10 which would, you know, were that to go away, would cause
11 some serious harm to those that are trying to provide
12 competitive local service.

13 Q. Explain that to me, if you would.

14 A. Well, the only thing that has truly worked on
15 any significant size is the use of the so-called UNE
16 platform to provide competitive local service.

17 Q. Do you want to explain what a UNE platform is?

18 A. Yeah. It's a term that -- I'm not exactly
19 sure where it came from, but in any event, it's buying all
20 of the UNEs that are necessary to provide a competitive
21 local service, and one of those is unbundled switching.

22 Q. All right. And when you say buying them,
23 you're buying them from who?

24 A. Buying them from the incumbent local exchange
25 carrier.

1 Q. Okay. I'm sorry to interrupt. Go ahead.

2 A. And one of the -- one of those UNEs that's

3 necessary to provide local service via the platform is

4 unbundled switching, and were that to go away, it would be

5 extremely difficult for anybody to continue to be providing

6 competitive local service in any significant numbers.

7 Q. And why is that?

8 A. Simply because you'd have to either put in

9 your own switches or try and buy switching from someone

10 else.

11 Q. All right. And that would be, what, was that

12 cost prohibitive or something, is that what you're saying?

13 A. It would be difficult to do physically and it

14 would be difficult -- it would be prohibitive to put enough

15 switches in enough locations to continue to be providing the

16 almost ubiquitous type of service that can be provided with

17 the so-called platform.

18 Q. So would that have a major impact if that

19 change were to occur on WorldCom?

20 A. It would certainly have a major impact on our

21 ability to continue to provide the nationwide local service,

22 residential local service that we're doing now.

23 Q. And I assume that by deduction that would mean

24 Missouri as well?

25 A. Yes. What I mean, Commissioner, is simply

1 that the service that's being provided in Missouri is the
2 same type of arrangement as in the other 31 states.

3 Q. And that's -- thank you for that
4 clarification. That's what I was assuming.

5 These relationships that WorldCom has with
6 carriers in Missouri where you have to make payments to
7 carriers, I heard you say earlier that on post-filing
8 matters, that WorldCom is current on those payments?

9 A. Yes, to the best of my knowledge, we are.

10 Q. All right. There's been some discussion in
11 some nationally and state to state about requiring certain
12 companies that have a Moody's rating of less than a certain
13 amount to file or to post some money ahead of time for those
14 services. What kind of impact would that have on WorldCom
15 or others that might be in a similar situation?

16 A. Well, first of all, I don't think there's any
17 need for that, in particular our case, where we are paying
18 current at present and the carriers have access to our cash
19 position. There shouldn't be any concern, and if they -- if
20 that were to deteriorate, they can go back and try and
21 change those arrangements.

22 The biggest problem, I think, and it wouldn't
23 only impact WorldCom but the whole competitive industry, is
24 that you're talking about really making a massive shift of
25 capital from the competitors to the incumbent local exchange

1 carriers. And if you take everyone's capital away and give
2 it to the local carriers as deposits, then you're
3 significantly harming the ability of those competitive
4 carriers to carry on their business and to compete.

5 Q. I hate to keep belaboring this issue,
6 Mr. Larsen, but in your opinion, would WorldCom be in
7 bankruptcy today if it were not for the misrepresentation of
8 assets by some of the corporate leadership?

9 A. I think that's a fair assessment, yes.

10 Q. That they would not be?

11 A. Correct.

12 COMMISSIONER GAW: I think that's all I have.

13 Thank you, Mr. Larsen.

14 JUDGE THOMPSON: Thank you, Commissioner Gaw.

15 Commissioner Forbis?

16 QUESTIONS BY COMMISSIONER FORBIS:

17 Q. Mr. Larsen, good morning.

18 A. Good morning.

19 Q. How are you doing?

20 A. Good, I think.

21 Q. I won't be too bad. There maybe follow-up,

22 though, from somebody else. Just a couple of quick

23 questions, mostly follow-up to what I think you've already

24 talked about.

25 Do you have any sense, I mean, are you seeing

1 a bleedoff of local Missouri customers given the press that
2 your company is experiencing?

3 A. Fortunately, we have not --

4 Q. Nothing significant?

5 A. -- experienced any significant customer
6 losses.

7 Q. Residential or business?

8 A. Correct.

9 Q. I was curious. You probably have like a
10 calling center or something where if folks have a question
11 they can call and find out what's happening with the company
12 and there's a message. Is there a script for that? I mean,
13 could we get a copy, if it's possible, of the kind of
14 information that the calling center shares with customers
15 who might inquire about what's happening with WorldCom?

16 A. Certainly.

17 Q. That would be helpful. I think that might
18 give us some sense of where the company's -- you mentioned a
19 notice that's going to be in the bills, but -- and there's
20 probably a number you can call on there or whatever, right?

21 A. Yeah. We can -- customer service answers
22 questions like that.

23 Q. That would be handy. I would appreciate that.
24 Thank you.

25 You also mentioned that, of course, the

1 company is trying to, I guess, divest itself of certain
2 assets and trying to generate some capital. Are you -- I
3 know in other bankruptcy questions like this there's often
4 concerns that you're selling off revenue producers in the
5 short run that will hurt the company in the long run. Are
6 you afraid that could be happening here?

7 A. The only thing that's happened so far, as I
8 mentioned, was the wireless resale, and that certainly was
9 not generating positive cash flows.

10 Q. So that's all that's out there right now that
11 you're aware of. Okay. Might be a good thing.

12 The only other notion, to kind of follow up
13 with something that Commissioner Murray asked about
14 assurances that these sorts of situations that we've been
15 talking about with the upper corporate levels wouldn't
16 happen again. I'm assuming that the company has now put in
17 different auditing practices, there are safeguards, there
18 are new policies that will better protect against loans and
19 that sort of activity?

20 A. Well, there are new auditors, there is new
21 management, there are new board members, and there's a lot
22 of outside scrutiny.

23 Q. And also I assume a lot of things have been
24 codified. There's a whole new set of -- there's a new book
25 on the shelf somewhere that people follow or --

1 A. I'm not sure that the books weren't there.
2 Q. They were there before. Okay. Just maybe
3 they weren't paying good attention to those. So the new
4 guys are going to watch to make sure the old books and the
5 old rules are applied differently.
6 A. Well, I don't think there's much of the old
7 accounting department left.
8 COMMISSIONER FORBIS: I think that's all I
9 wanted to ask you. Thank you.
10 MR. LARSEN: Thanks.
11 JUDGE THOMPSON: Thank you, Commissioner
12 Forbis. Other questions from the Bench?
13 (No response.)
14 JUDGE THOMPSON: Thank you, Mr. Larsen.
15 MR. LARSEN: Thank you.
16 JUDGE THOMPSON: You may step down.
17 Mr. Lane, you indicated you had some remarks.
18 MR. LANE: Thank you, your Honor. I'll be
19 fairly brief.
20 WorldCom has focused on its operations and its
21 customers, and that's understandable, but I'd like to give a
22 little broader view about the impact of bankruptcy filings
23 in general on telecommunications carriers in Missouri. The
24 comments that I'd offer, I have three, but they're not
25 WorldCom specific. They're more related to the totality of

1 the industry.

2 The first is that we believe that the
3 Commission should approve tariffs and interconnection
4 agreements that call for higher deposit levels and greater
5 assurances of payments. SBC as a company has over
6 \$500 million at risk from telecommunications carriers that
7 have filed bankruptcy, and that type of exposure simply
8 can't be repeated.

9 Interexchange carrier tariffs for the payment
10 of access charges should contain provisions assuring
11 payment, including increased deposits when a company is
12 experiencing financial difficulty. I think the Spectra
13 tariff that this Commission is considering in TT-2003-43,
14 which is scheduled for hearing in November, is the first
15 opportunity for the Commission to consider that.

16 Other ILECs will file tariffs and will ask for
17 provisions in interexchange agreements for local service
18 that do a better job of guaranteeing payment from carriers
19 that are utilizing our services, and we would ask the
20 Commission to consider those matters carefully to avoid the
21 kind of situation that we've experienced today.

22 Second is that we believe that the Commission
23 should recognize the risk of nonpayment from carriers in
24 determining rates for unbundled network elements. I think
25 it's beyond dispute that the cost of capital of a company,

1 of an ILEC, is clearly impacted by the risk of nonpayment,
2 that that risk has not been appropriately assessed in
3 setting cost of capital when determining the appropriate
4 rates for UNEs. Nor has the level of uncollectibles been
5 appropriately recognized in setting rates for unbundled
6 network elements.

7 I think the Commission should do what it needs
8 to do to ensure that ILECs that provide unbundled network
9 elements have rates that are appropriately set and ensure
10 that they're paid when carriers use those unbundled network
11 elements and services.

12 The third is more of a general comment that
13 the Commission should refrain from taking actions that are
14 designed to protect carriers that are in bankruptcy or that
15 are in financial difficulties. I'll say it may be natural
16 to let the financial considerations of these carriers impact
17 your decisions, but that you should not.

18 Taking a look and trying to take actions that
19 benefit carriers that are in bankruptcy or are having
20 financial difficulties could ultimately have deleterious
21 effects on the industry in general and on Missouri providers
22 of service in particular.

23 I think most industry analysts have recognized
24 that the telecommunications industry has significant
25 problems today that need to be worked through, and in my

1 view the problems are exacerbated by bankruptcy filings, and
2 I think you may have seen different telecommunications
3 analysts that have focused on that.

4 Part of the concern is that there's an
5 enhanced ability to compete coming out of bankruptcy as
6 unsecured debts are written off and secured debts are
7 significantly reduced. These carriers have an ability to
8 price lower than a normal company would because they don't
9 have the level of debt that they need to cover and they
10 don't have to ensure payment of some of the expenses that
11 were incurred pre-petition.

12 While this may enable them to lower prices in
13 the short run and while that may be good for consumers in
14 the short run, I think the Commission needs to look at what
15 the long-range impact of that is.

16 The long-range impact is potentially if you
17 take actions that are designed to benefit carriers that are
18 in financial difficulties at the expense of the carriers
19 that are providing services to them, that you will create
20 disincentives to invest in the telecommunications
21 infrastructure in Missouri.

22 I think it's critical that you realize and
23 recognize that we need to have a vibrant telecommunications
24 infrastructure and that, at least as of today, it's the
25 ILECs that are providing that ubiquitous level of service to

1 all customers and that we need to take actions that ensure
2 that they have the appropriate incentives to invest.
3 Actions that you take through approving tariff rates and
4 unbundled network element charges are critical to making
5 sure that the incentive is proper.

6 That's all I have. Thank you.

7 JUDGE THOMPSON: Thank you, Mr. Lane.

8 COMMISSIONER GAW: I have some questions.

9 JUDGE THOMPSON: Questions from the Bench.

10 Commissioner Murray?

11 COMMISSIONER MURRAY: I don't have any
12 questions. Thank you.

13 JUDGE THOMPSON: Commissioner Gaw?

14 COMMISSIONER GAW: Thank you.

15 Mr. Lane, just a few things. When you were
16 talking about the issue of the amount at risk, did I hear
17 you say any kind of a number about how much you're talking
18 about?

19 MR. LANE: Something in excess of 500 million
20 in pre-petition debts for carriers that have gone through or
21 are presently in bankruptcy proceedings in the last -- since
22 the beginning of 2000. I'm talking that's SBC-wide,
23 Commissioner, not Missouri.

24 COMMISSIONER GAW: Are those debts that have
25 been discharged in bankruptcy against Southwestern -- that

1 were owed to Southwestern Bell or are those things that --
2 are some of that number bankruptcies that have been filed
3 but not completed?

4 MR. LANE: Yes, it's a combination of both.

5 COMMISSIONER GAW: Do you have the figure
6 about how much has actually been discharged by chance?

7 MR. LANE: I do not. Most of it is obviously
8 still out there. I think we disclosed that, with regard to
9 the WorldCom companies, I think we said something in excess
10 of \$300 million is the pre-petition amount that is at issue.
11 And so obviously the majority of that, since it's -- since
12 my figure's 500 million, the majority of that is still open
13 and to be determined as to whether we'll see any recovery
14 and, if so, how much.

15 COMMISSIONER GAW: And I know that would be
16 guesswork to try to figure that part out.

17 What I'm interested, though, is whether
18 there -- if you can get the figure for us on what you --
19 what has been up to this point in time discharged in a
20 bankruptcy proceeding that has been completed. I guess do
21 you know that -- did Birch owe Southwestern Bell money at
22 the filing of their bankruptcy?

23 MR. LANE: Yes.

24 COMMISSIONER GAW: Do you know what that
25 figure was, if it's disclosable?

1 MR. LANE: I do know it. I don't know whether
2 it's disclosable or not.

3 COMMISSIONER GAW: Well, don't go there if you
4 don't know, but --

5 MR. LANE: And I will say, I can try to get
6 information that would satisfy your interest. I can tell
7 you that I don't know how readily available it is to start
8 with. There's a number of factors that come into it.

9 When a company goes into bankruptcy, you wind
10 up engaging in negotiations with them to settle pre-petition
11 debt as well as any claims they may have against you, and
12 you often work out an agreement.

13 COMMISSIONER GAW: So some of it could be net?

14 MR. LANE: Yeah. I don't know that I could
15 give you a number. I will look and find out if there is a
16 number to give, and if there is, I will. I just don't know
17 if it's --

18 COMMISSIONER GAW: That would be fine.

19 MR. LANE: I don't know if it's --

20 COMMISSIONER GAW: I don't want you to go
21 through a lot of effort to get that. If it's something
22 that's available and you can share it with us, that would be
23 helpful.

24 MR. LANE: Okay.

25 COMMISSIONER GAW: And I guess the next

1 question I have about that is, when you -- when you're
2 giving that figure somewhere over 500 million, is that --
3 that figure is a gross figure when you say some of it
4 might -- there may be claims back and forth between
5 companies?

6 MR. LANE: That's the pre-petition claim that
7 we would make.

8 COMMISSIONER GAW: By Bell against those
9 companies --

10 MR. LANE: Yes.

11 COMMISSIONER GAW: -- that have filed?

12 MR. LANE: Yes.

13 COMMISSIONER GAW: Okay.

14 MR. LANE: It is not an indication that we
15 have lost that amount of money. I want to make that clear.

16 COMMISSIONER GAW: That's fine, but that --
17 but that's helpful.

18 Some -- there is some amount of that money,
19 though, at some point in time that you assume you will lose?

20 MR. LANE: Yes, unfortunately.

21 COMMISSIONER GAW: That you believe you're
22 owed?

23 MR. LANE: Sure.

24 COMMISSIONER GAW: And the chances are not
25 real great that there are claims by those companies against

1 Bell that would exceed that amount, so that we're really
2 talking about a loss here when you get finished by Bell?

3 MR. LANE: Absolutely.

4 COMMISSIONER GAW: Can you tell me, of those
5 amounts that are claimed, what part of that has to do with
6 access with the UNEs? Do you have a breakdown on any of
7 that? Is there something that makes up the bulk of it
8 that's identifiable?

9 MR. LANE: I don't have a breakdown. I can
10 give you my estimation of what I think it is.

11 COMMISSIONER GAW: That's fine.

12 MR. LANE: I would say that certainly a large
13 portion of it is access charges for interexchange carriers.

14 COMMISSIONER GAW: Yeah. So Bell --

15 MR. LANE: And a significant amount for local.
16 I'm just saying, if I had to guess, my guess is that we'd
17 see something over -- and it really is a guess, but probably
18 a little bit more on the interexchange side than on the
19 local side.

20 COMMISSIONER GAW: I'm just trying to get a
21 picture of what we're dealing with.

22 MR. LANE: I understand.

23 COMMISSIONER GAW: So there are other
24 telecommunications companies out there that would be in the
25 same boat, probably not because of their size in the same --

1 dealing with the same numbers, but that would be also owed
2 money in the same way that Bell is owed money? Talking
3 about local ILECs, rural ILECs, others that might be out
4 there in the same position.

5 MR. LANE: Yes. Certainly on the access side
6 I would say that any company that's operating in Missouri
7 such as WorldCom would have a duty to pay access charges
8 probably to every ILEC in the state for terminating access,
9 if not originating access.

10 The amount that's owed or the companies that
11 are owed for providing interconnection for local services
12 would be a more limited group. Most of the small companies
13 in Missouri do not have CLECs operating in their
14 territories. It's more limited to Southwestern Bell and to
15 a smaller degree the old GTE, Verizon, now CenturyTel, the
16 Spectra group, and possibly Sprint as well.

17 COMMISSIONER GAW: Okay. When we're dealing
18 with access charge, of course, they would be impacted to
19 some percentage level fairly significant, could be impacted
20 significantly?

21 MR. LANE: I believe that WorldCom, for
22 example, operates on an originating basis in CenturyTel now,
23 Spectra, Sprint, Southwestern Bell territory and probably
24 many others, but I don't --

25 COMMISSIONER GAW: I can't recall either,

1 so --

2 MR. LANE: But certainly on a terminating
3 basis they terminate calls to all of the companies.

4 COMMISSIONER GAW: Yes. Do you think that if
5 WorldCom -- I'm using WorldCom as an example mainly because
6 they're here, and that may be unfortunate, but also because
7 of their size.

8 If WorldCom were to be unable to continue
9 business at some point in the future, what does that -- does
10 that have any impact to Bell? Pushing aside the financial
11 side of it, does it have an impact on your -- your
12 facilities or anything like that? Is there any real problem
13 that comes along, expense that comes along with that,
14 difficulty to consumers, anything of that sort?

15 MR. LANE: Well, clearly there would be
16 difficulties from a consumer perspective until they switched
17 over their -- either their local service or their long
18 distance service.

19 On the long distance side, it's relatively
20 easy to change a customer's PIC, its primary interexchange
21 carrier. It's a change that you make to the software in the
22 switch to recognize who the long distance provider is. We
23 do that routinely, I believe within a day normally, maybe
24 even less than that.

25 But if we're talking about changing thousands

1 and thousands of customers, then that would potentially pose
2 some difficulty in working through that. If they have
3 hundreds of thousands of customers and if they all want to
4 change it on day one, I would anticipate that there would be
5 some problems working all of those in a normal time frame.

6 But I don't anticipate overall that there
7 would be a problem in getting those changes worked in a
8 reasonable period of time if that were to occur.

9 On the local side, it's a little more
10 difficult. It's --

11 COMMISSIONER GAW: Yeah. Go ahead.

12 MR. LANE: Well, the Commission has a
13 snap-back rule that I believe Mr. Larsen accurately stated
14 applies when a company is engaging in the resale of the
15 ILEC's service, and WorldCom does not utilize resale. They
16 utilize for their residential customers, as they say,
17 unbundled network element platform, which is a different way
18 of doing business and the snap-back rule doesn't apply to
19 that.

20 Those customers would have to pick a local
21 carrier, and we would need to -- to the extent we're
22 involved in the process, we would need to work that with the
23 customer and with the carrier that they chose to get that
24 taken care of.

25 Again, you'd have a problem if they do it all

1 on the same day.

2 COMMISSIONER GAW: Help me out here on this --
3 on this issue on dealing with unbundled network elements.
4 If the -- if, for instance, a major company that utilized
5 the UNE platform were to cease operations, what happens with
6 that equipment? What goes on with it? Do you understand
7 what I'm saying?

8 MR. LANE: I'm not sure I do. Are you asking
9 is it stranded?

10 COMMISSIONER GAW: The network elements
11 themselves that are being utilized, what happens with that?
12 Is it just -- does it continue to sit in the same offices?
13 Where's the -- where does the ownership go? I mean, I'm
14 just --

15 MR. LANE: Unbundled network elements, those
16 are piece parts of Southwestern Bell's network. If they're
17 not used by a particular company or if they cease using
18 them, the elements themselves continue to exist.

19 COMMISSIONER GAW: They're owned by -- they're
20 owned by Bell, right?

21 MR. LANE: We own them.

22 COMMISSIONER GAW: They're leasing them?

23 MR. LAW: That's right.

24 COMMISSIONER GAW: Now they're not being
25 utilized, but I guess do they then act as additional

1 capacity to deal with the customers that were using them
2 only with WorldCom?

3 MR. LANE: They would be available, yes. I'm
4 not sure if I'm following you, but --

5 COMMISSIONER GAW: Well, I'm asking --

6 MR. LANE: We can break it down into the loop
7 and the switch, if we look at it that way, which is -- those
8 are the two main elements of the unbundled network element
9 platform. The loop is out there, and it would be available
10 to either Southwestern Bell if the customer chose us --

11 COMMISSIONER GAW: Right.

12 MR. LANE: -- or if the CLEC, if they chose a
13 CLEC to take the place of a WorldCom, for example, it would
14 be available to the CLEC to use to provide service.

15 COMMISSIONER GAW: What I'm going to, I'm
16 trying to understand whether or not from an efficiency
17 standpoint, if they were just to revert back to Bell, if
18 they would go to Bell, do you just keep them on the same --
19 just keep them on the same part of the loop, keep them in
20 the same -- or is there an efficiency to bring them back
21 into some other pieces of equipment that you're utilizing?
22 I'm talking just from a physical standpoint. It's probably
23 a question that's easy, but I --

24 MR. LANE: I would say from any individual
25 customer that if they chose to come back from a WorldCom

1 utilizing the unbundled network element platform and they
2 wanted to be served by Southwestern Bell, we would probably
3 utilize, in general, the equipment that's in place to do
4 that.

5 Now, we have a problem sometimes that we've
6 asked the Commission to address in prior arbitrations where
7 carriers would not release the unbundled network elements to
8 us to serve a customer, and that can create a significant
9 problem if they continue to maintain -- they say, well, I've
10 paid for these through the end of the month. I may want to
11 pay for them next month. I may want to get another customer
12 on board to use this, so I'm not going to release that.

13 If those elements aren't released, then
14 whether the customer has chosen us or another CLEC, then
15 there may not be facilities available to provide service to
16 those customers in that case.

17 COMMISSIONER GAW: Is it possible that a
18 company on -- if this were -- if for some reason the
19 bankruptcy were converted to a 7 and the assets of the
20 company then would be liquidated, would those assets then
21 just revert back to Bell or would they be subject to
22 potential purchase by someone else?

23 MR. LANE: Our unbundled network elements are
24 not assets of the CLEC utilizing them. They are our assets.

25 COMMISSIONER GAW: But the lease is, right? I

1 mean, I guess what I'm asking is whether or not whatever
2 they were doing with those assets -- and you may have just
3 answered the question, but I want to make sure that's what
4 would happen.

5 If there's a liquidation, they would
6 automatically go back to Bell. There would not be a
7 question about whether other carriers might be able to
8 somehow acquire them?

9 MR. LANE: I don't believe so, Commissioner.

10 COMMISSIONER GAW: But if they purchased the
11 customer base in that proceeding, then what would happen?

12 MR. LANE: If the customer base were
13 purchased, then the new carrier would presumably have its
14 own plan for how it wanted to serve them. If it wanted to
15 serve them in the exact same way that the prior carrier had
16 been serving them, then those arrangements could be made.

17 COMMISSIONER GAW: So under those
18 circumstances they would continue to have access to the same
19 UNE platform, if that's how they chose to do it?

20 MR. LANE: If that's how the first carrier was
21 doing it and that's how the second carrier chose to do it,
22 yes.

23 COMMISSIONER GAW: Sorry I --

24 MR. LANE: I mean, I think you're asking is
25 there a potential for difficulties from a customer

1 perspective. I mean, I gather that's why you're asking.
2 The answer is --
3 COMMISSIONER GAW: And from Bell's
4 perspective.
5 MR. LANE: Yes, there can be, but if it's
6 handled properly, there may not -- it may not.
7 COMMISSIONER GAW: Okay. Again, I apologize
8 for dwelling on that. I just want to gather an
9 understanding.
10 That's all I have, too. Thank you.
11 JUDGE THOMPSON: Thank you, Commissioner Gaw.
12 Commissioner Forbis?
13 COMMISSIONER FORBIS: I don't have any
14 questions.
15 JUDGE THOMPSON: Other questions from the
16 Bench?
17 You may step down, Mr. Lane. Thank you.
18 Any remarks from Public Counsel, Mr. Dandino?
19 MR. DANDINO: No, your Honor. Thank you.
20 JUDGE THOMPSON: Staff?
21 MR. ANDERSON: No, your Honor.
22 JUDGE THOMPSON: Mr. Lumley?
23 MR. LUMLEY: I don't believe we have anything
24 further this morning, your Honor.
25 JUDGE THOMPSON: Thank you. Anything further

1 from any parties?

2 (No response.)

3 JUDGE THOMPSON: Hearing nothing further, the
4 on-the-record presentation then will be adjourned at this
5 time. Thank you very much.

6 WHEREUPON, the presentation was concluded.

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