11 August 2005

Mr. Andrew Haire
Senior Director (Policy and Competition Development)
IDA
8 Temasek Boulevard
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Singapore 038 988

BY POST AND FACSIMILE: +65 6211 2116

RE: **APPLICATION UNDER SECTION 26(5) OF THE TELECOMMUNICATIONS ACT, SUBSECTION 1.7(a) OF THE TELECOM COMPETITION CODE OF 2005 AND SUBSECTION 3.5 OF THE TELECOM CONSOLIDATION GUIDELINES, WHICH INCLUDES THE FOLLOWING:**

(1) REQUEST FOR EXEMPTION FROM FILING LONG FORM CONSOLIDATION APPLICATION; AND,

(2) REQUEST FOR APPROVAL OF CONSOLIDATION APPLICATION.

Dear Mr. Haire:

This application and abbreviated statement are filed by MCI WorldCom Asia Pte ("MCI Singapore") on behalf of themselves and MCI, Inc. ("MCI") and Verizon Communications Inc. ("Verizon") in relation to the proposed merger between Verizon and MCI. An effect of the transaction will be that Verizon will control MCI Singapore.

The consolidation is in the public interest for Singaporeans because it will help make MCI Singapore a better competitor in the Singapore telecommunications market.

SHORT FORM CONSOLIDATION APPLICATION

Section 10.5.2.1 of the Telecom Competition Code of 2005 ("Telecom Code") and section 3.2.2.1 of the Telecom Consolidation Guidelines ("Telecom Guidelines") provide that a Short Form Consolidation Application is appropriate where the consolidation is a horizontal consolidation that will not result in a post-consolidation entity having more than a 15% share in the telecommunication market in Singapore or the consolidation is a non-horizontal consolidation in which none of the Applicants has more than 25% share on any telecommunication market, whether in Singapore or elsewhere. If a consolidation does not meet these requirements, the IDA has the authority to issue an exemption from filing the Long Form Consolidation Application pursuant to subsection 1.7(a) of the Telecom Code and section 3.5 of the Telecom Guidelines.

The parties submit that a Short Form Consolidation Application is appropriate, because the parties should be exempt from filing a Long Form Consolidation Application, pursuant to subsection 1.7(a) of the Telecom Code and section 3.5 of the Telecom Guidelines.

The parties request an exemption from the requirement to file a Long Form Consolidation Application pursuant to subsection 1.7(a) of the Telecom Code and section 3.5 of the Telecom Guidelines. This exemption is appropriate because the Long Form Consolidation Application is not necessary to ensure that the consolidation would not substantially lessen competition in the Singapore telecommunication market. The parties have provided substantial information in their Short Form Consolidation Application and accompanying abbreviated statement to provide the IDA with data to evaluate the consolidation.

The proposed consolidation has no potential material adverse impact on telecommunication markets in Singapore. In Singapore, the merger would not result in the combined entity having more than 15% share in any telecommunications market. Furthermore, since Verizon has an extremely limited presence in non-US markets and is not actively operating in any Asia Pacific markets (including in the Singapore market), the merger would have no vertical elements in the Singapore market or in any markets that could potentially affect the Singapore market. Depending on the geographic and product market definition, Verizon may have greater than 25% market share in certain telecommunication markets in the Dominican Republic, Gibraltar, and *parts of* the United States. There is, however, no material nexus between competition in these regions and Singapore (including any meaningful infrastructure links between the regions). Moreover, all markets served by Verizon and MCI in the United States are competitive. Verizon also is regulated by the United States Federal Communications Commission ("FCC"), which has the authority to regulate aspects of Verizon's operations. For example, the FCC prohibits terminating access carriers like Verizon from discriminating or charging supra-competitive rates in the provision of terminating access services. In addition, Section 272(e) of the US Telecommunications Act of 1996 requires non-discrimination between affiliates and non-affiliates in providing access services, and local exchange carriers like Verizon are subject to general non-discrimination and tariffing obligations. Therefore, MCI Singapore (or any other Verizon affiliate) will not have any advantage or preference with regard to call termination in Verizon territories, and there is no possibility for the parties to leverage any conceivable foreign market power to substantially lessen competition in any telecommunication market in Singapore. Accordingly, the parties request that the IDA grant an exemption from the requirement to file a Long Form Consolidation Application, pursuant to subsection 1.7(a) of the Telecom Code and section 3.5 of the Telecom Guidelines.

DESCRIPTION OF THE PARTIES

Verizon

Verizon is a publicly-listed provider of telecommunications services, which it provides almost entirely in the United States through various subsidiaries. Verizon's 2004 worldwide revenues were approximately US$72.41 billion.

Verizon does not actively operate in Singapore and, other than through its merger with MCI, does not currently have plans to actively operate in Singapore in the future.

Verizon subsidiaries provide telecommunications services to residential, small business, and some large corporate and government customers in various regions of the US. These services include local, domestic long distance and international voice telephony services. Verizon subsidiaries, affiliates, and partnerships in the US also provide internetworking, wireless, directories and telecommunications-based information services and systems.

In each of the 29 jurisdictions where it is an incumbent local exchange carrier ("ILEC"),[1] Verizon owns and operates network facilities that it uses to provide various wireline voice telephone and data services to residential and business customers. Verizon also uses its network to supply special access, generally on a wholesale basis, to other carriers. Verizon's ILEC presence varies significantly by State. In the 13 eastern States[2] and the District of Columbia (which constitute the former Bell Atlantic territory), Verizon is the principal ILEC. Its network serves the majority of the population within each of these jurisdictions, including the central business districts of the major cities. Conversely, Verizon is not the primary ILEC in any of the 15 western and central States that constitute most of the former GTE territory. Verizon's network in those States is much less extensive and covers primarily suburban areas. Verizon's network consists of fiber and copper of varying capacities that connect end-user premises to Verizon's central offices. Verizon's facilities also connect its central offices to interstate and international exchange facilities (operated by inter-exchange carriers ("IXCs") and international network carriers), as well as to the networks of other carriers. Verizon competes vigorously with many other suppliers of competing fiber throughout its region.

For additional information, see http://www.verizon.com.

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1 Verizon is an ILEC in each of the following US jurisdictions: Arizona, California, Connecticut, Delaware, Florida, Idaho, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, Nevada, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, Washington, West Virginia, and Wisconsin, as well as Washington, D.C.

2 New York, Pennsylvania, New Jersey, Connecticut, Virginia, Massachusetts, Maryland, Rhode Island, Delaware, New Hampshire, Maine, West Virginia and Vermont.

MCI

MCI is a publicly-listed global provider of advanced communications connectivity to businesses and governments, and a provider of communications services to consumers in the United States. MCI recently emerged from bankruptcy protection in the United States. Its 2004 worldwide revenues were approximately US$20.06 billion.

MCI delivers a comprehensive portfolio of local-to-global business data, Internet and voice services to customers. It is an established leader in IP network technology and Virtual Private Networks ("VPN"), delivering VPNs based on private data networks and its global IP network. MCI's portfolio includes SONET private line, frame relay, ATM and a full range of dedicated, dial and value-added Internet services.[3]

MCI owns and operates some of the world's most complex and sophisticated custom networks, delivering value for a wide variety of customers. MCI is also a provider of audio, video, and Net conferencing services that enable customers to meet and collaborate remotely to effectively conduct business anywhere, anytime. MCI's extensive global networks cover more than 95,000 route miles. It provides high-capacity connections in more than 100 countries, using more than 2,400 ATM, frame relay and voice switches, together with 2.2 million dial ports throughout the world. MCI operates 130 data centers worldwide.

MCI operates in Singapore through its subsidiary MCI Singapore. (A second Singapore-based MCI subsidiary, UUNET Singapore Pte Ltd, is not a Facilities-Based Operator and does not offer services in Singapore.)

For additional information about MCI, see http://www.mci.com.

DESCRIPTION OF THE CONSOLIDATION

Pursuant to an Agreement and Plan of Merger (the "Merger Agreement") dated as of February 14, 2005, as amended on March 4, 2005, March 29, 2005, and May 1, 2005, by and among Verizon and Eli Acquisition, LLC ("Eli"), a newly organized and direct, wholly-owned subsidiary of Verizon, on the one hand, and MCI, on the other, MCI shall merge into Eli and the separate corporate existence of MCI shall cease. Eli shall be the surviving entity in the merger, and all property, rights, privileges, powers, and franchises of MCI and Eli shall vest in the surviving entity, and all debts, liabilities, and duties of MCI and Eli shall become the debts, liabilities and duties of the surviving entity.

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3 MCI's retail service suite includes Internet access, data networking services, voice services, product packages and solutions, hosting services, security services, contact center services, managed network services, conferencing, value-added products, Internet exchange and transaction services.

If Verizon reasonably determines in good faith that merging MCI into Eli would result in a material risk of materially adverse tax or other materially adverse consequences, the Transaction can also be carried out by merging MCI with a Delaware corporation wholly-owned by Verizon, with MCI as the surviving company.

Separately, Verizon has purchased approximately 13.4% of MCI's shares from Controladora de Servicios de Telecommunicaciones, S.A. de C.V., Global Telecom LLC, Inmobiliaria Inbursa, S.A. de C.V., Promotora Inbursa, S.A. de C.V., Banco Inbursa, S.A. Institucion de Banca Multiple Grupo Financiero Inbursa, Inmobiliaria para el Desarrollo de Proyectos, S.A. de C.V., Orient Star Holdings LLC and Commercial LLC for $25.79 per share, subject to adjustment (collectively, the "Slim Transaction"). Those shares are being held in trust, will be voted in favor of the full merger, and will be transferred to a Verizon subsidiary upon closing of the full merger, pursuant to an agreement with the United States Department of Justice.

As a result of the Transaction and the Slim Transaction, Verizon expects to control 100% of the shares of MCI and thus will indirectly own 100% of MCI Singapore.

The transaction is intended, among other things, to enhance Verizon's ability to serve enterprise and governmental customers in the US.

PRODUCTS OFFERED IN SINGAPORE

As noted above, Verizon does not actively operate in Singapore or any Asia market and, other than through its merger with MCI, does not currently have plans to actively operate in Singapore or any Asia market in the future.

UUNET Singapore is a shell entity that offers no products and has no revenues.

A list of products offered by MCI Singapore is attached as Exhibit 1.

PRODUCTS OFFERED *OUTSIDE* OF SINGAPORE

MCI

MCI offers a wide range of products outside of Singapore, including local-to-global business data, Internet and voice services to customers. It is an established leader in IP network technology and VPN. MCI's portfolio includes SONET private line, frame relay, ATM and a full range of dedicated, dial and value-added Internet services. By any reasonable measure, MCI does not have more than 25% share for any telecommunications market in which it operates. Nonetheless, after discussions with the IDA, it may be helpful for the parties to address two specific topics: Global Telecommunications Services and Internet Backbone.

Global Telecommunications Services

Although not a relevant product market in all jurisdictions, MCI supplies what some jurisdictions have defined as Global Telecommunications Services ("GTS"). GTS are customized telecommunications services provided to multinational corporations ("MNCs") with trans-continental service requirements.[4] To the parties' knowledge, every jurisdiction that has reviewed a transaction involving GTS – including transactions involving vertically-integrated local telephone providers like British Telecom and France Telecom – has found the GTS market to be fully competitive.[5]

GTS customers are rarely able to satisfy their telecommunications needs exclusively with standardized products and services purchased off-the-shelf. They tend to require advanced or enhanced functionality and a degree of customization, either with respect to particular services or the management and integration of multiple services. GTS packages are thus tailored to meet the specific service requirements of each individual customer and normally comprise various integrated services. Moreover, every GTS package must be tailored to the specific geographic needs of each customer, since GTS customers require the provision of services in two or more different continents. GTS providers use a combination of owned and third-party network facilities and/or services to assemble each GTS package.

The GTS market is extremely fragmented, and there are many GTS providers throughout the world. They range from traditional telecommunications companies like British Telecom/Infonet, France Telecom/Equant, Deutsche Telekom/T-Systems, Telefonica, Telia Sonera, KPN Eurowing, Colt, AT&T, Sprint, MCI, XO, NTT, and SingTel to system integrators like Vanco, Interoute, Atos Origin, EDS, IBM, Accenture, Hewlett Packard, Cap Gemini, Siemens, Fujitsu, CSC, Logica CMG, Northrop Grumman, General Dynamics, TSI Group, FS, Getronics, Omnetia, and Lockheed Martin.[6] Verizon, however, *does not* offer GTS.

Given the expansive nature of the products demanded by GTS customers, no GTS provider can provision all aspects of a GTS bid itself. Every provider must purchase

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4 In *BT/Infonet*, the European Commission defined GTS as: "telecommunications services linking a number of different customer locations, generally in a least two different continents and across a larger number of different countries. They are generally purchased by multinationals with presence in many countries and a number of continents. The services provided are enhanced services – going beyond the provision of simple services such as basic voice and fax – to provide customers with package solutions including virtual private networks for both voice and data services and advanced functionalities." *BT/Infonet*, Case No. COMP/M. 3641, at ¶ 8.

5 *See, e.g., BT/AT&T*, European Commission, Case No. IV/JV.15.; *BT/AT&T/Japan Telecom*, European Commission, Case No. COMP/M. 1510; *BT/Infonet*, European Commission, Case No. COMP/M. 3641; and *FT/Equant*, European Commission, Case No. COMP/M. 2257.

6 For system integrators, *see "IT pays to partner"*, Julian Bright, Total Telecom Magazine, October 2004, at page 36.

services from others. For example, in the United States alone, MCI purchases products and services from more than 21 different operators. Similarly, MCI has important supply relationships outside the United States for many different products and services with companies such as British Telecom, Deutsche Telekom, France Telecom, SingTel, and NTT. Significantly, many of these suppliers are, and have been for many years, MCI's competitors in the GTS market. MCI has always found that it has been able to compete in the GTS market even though it often competes against vertically-integrated telephone companies like British Telecom, France Telecom, and Deutsche Telekom.

MCI supplies GTS to MNCs in all regions of the world generally through its Global Account Management group ("GAM"). MCI's worldwide GAM revenues from the supply of GTS services in 2004 were approximately **[Confidential Information]**. In addition to its GAM sales, MCI supplies GTS services to a number of MNCs that are managed through its Commercial Accounts sales channel. MCI estimates that no more than **[Confidential Information]** of its total Commercial Account revenues are generated through the provision of GTS to MNCs. As such, Commercial Account revenues increase its global GTS revenues by no more than **[Confidential Information]**, for a total of approximately **[Confidential Information]** worldwide.

Internet Backbone

In North America, MCI operates an Internet backbone comparable in size to at least five other providers; Verizon has no comparable backbone. The FCC has defined Internet backbone services as "the transporting and routing of packets between and among ISPs and regional backbone networks."[7] When the FCC and the European Commission reviewed the merger between WorldCom and Sprint, they identified at least five "top-tier" Internet backbone providers: WorldCom (now MCI), Sprint, AT&T, Cable & Wireless (which has since been purchased by SAVVIS), and GTE Internetworking (which has since been purchased by Level 3).

Since that time, the market has changed dramatically. Concentration among Internet backbone providers has decreased substantially. While publicly available information does not permit precise, reliable calculations of individual shares, all available data show that MCI is a much less significant provider of backbone-based services than it was five years ago, and that at least five other companies offer Internet connectivity services that are comparable to those offered by MCI.[8] These companies include AT&T, Sprint, Qwest, Level 3, and SAVVIS, and may also include AOL Transit Data Network and Teleglobe.[9] The best estimate of the combined company's share, based on a study by RHK, is that it would carry less than **[Confidential Information]** of

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7 FCC *MCI/WorldCom Order*, ¶ 148.

8 *See* Declaration of Michael Kende ("Kende Decl.") ¶ 2 (attached as Exhibit 2).

9 *See id.*

North American Internet traffic.[10] The combined company would be only the fourth largest Internet backbone operator in North America – in the middle of a pack of seven firms having comparable shares, with major competitors including firms such as AT&T, Sprint, Level 3, Qwest, SAVVIS, and AOL.[11] Combined, the seven top backbone operators in North America would carry only about 65 percent of total Internet traffic.[12] Moreover, the transaction would not significantly increase MCI's share from where it stands today – as some parties acknowledge, Verizon has only a small backbone business and does not qualify as a "Tier 1" backbone.[13] Thus, this transaction does not present the types of concerns raised in *WorldCom/Sprint* and other previous mergers: unlike the combined company here, a combined WorldCom-Sprint allegedly would have been by far the largest Internet backbone operator and more than three times as large as its next largest competitor.[14] Under no theory would a merged Verizon-MCI have the share necessary to "tip" the market, or engage successfully in other anticompetitive activities.[15].

The combination of MCI's and Verizon's backbones would still be comparable in size to several other North American backbones and also would continue to face competition from many other smaller backbones. MCI also operates an Internet network in Asia, but is only one competitor among many strong Asia-based networks, including SingTel, Optus, Telstra, Asia Netcom, NTT, VSNL, and many others. To the parties' knowledge, no allegation has ever been made that MCI possesses significant market power for Internet services in Asia. Verizon does not offer Internet services in Asia. Accordingly, this transaction does not raise any concerns about the reduction of

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10 Reply Declaration of Michael Kende ("Kende Reply Decl.") ¶ 8 (attached as Exhibit 3). RHK estimates that MCI currently carries approximately 7-8 percent of Internet backbone traffic. *Id.* And, even after the transaction closes, that share would increase to less than **[Confidential Information]**. *Id.*

11 Kende Reply Decl. ¶ 8.

12 *See id.* Due to confidentiality obligations, RHK has not shared with the parties the identity of the ISPs it lists in its study. The parties believe, although cannot be certain, that the list of largest backbone providers in North America by traffic volume likely would include the firms listed in the text.

13 FCC Filing by Broadwing/SAVVIS at 42. Some commentators overestimate Verizon's share due to characteristics of the underlying data upon which they rely. The IDC revenue data reported in the Kende Declaration, for example, overstates Verizon's revenues relative to those of other Internet backbone providers. *See* Kende Reply Decl. ¶¶ 12-13.

14 *See United States v. WorldCom, Inc.& Sprint Corp.*, No. 1:00-cv-01526-RMU ¶¶ 33, 35 (D.D.C. filed by the US Department of Justice on June 27, 2000).

15 *See* D. Malueg & M. Schwartz, *Interconnection Incentives of a Large Network,* Working Paper 01-05, Georgetown University Dep't of Economics, Aug. 2001, revised Jan. 2002) at 16-17 (*available at* www.georgetown.edu/faculty/schwarm2/papers/InterconnectionIncentives.pdf) (demonstrating that a dominant provider, facing only one rival, would be very unlikely to pursue a global degradation strategy, unless its market share exceeded 70%.); *id.* at ii (demonstrating that with multiple rivals to the dominant firm, the market has the potential for tipping *against* the largest provider, even if its share is well in excess of 50%.).

competition among operators of Internet backbones (that is, providers of Internet connectivity).

Verizon

Verizon subsidiaries provide telecommunications services to residential, small business and some large corporate and government customers in various regions of the US. These services include local, domestic long distance, and international voice telephony services. Verizon subsidiaries, affiliates, and partnerships in the US also provide internetworking, wireless, directories and telecommunications-based information services and systems. Depending on the geographic and product market definition, Verizon may have greater than 25% market share in certain telecommunication markets in *parts of* the United States. Although each of these markets is competitive, the parties believe it would be helpful to explain the regulatory regime in the United States to show that Verizon could not leverage any conceivable market power to substantially lessen competition in any telecommunication market in Singapore.

International Voice Telephony Services

MCI Singapore will not have any advantage or preference with regard to call termination in Verizon territories. The regulatory framework in the US prohibits terminating access carriers like Verizon from discriminating or charging supra-competitive rates in the provision of terminating access services. This is consistent with the requirements of Chapter 9 of the US- Singapore Free Trade Agreement, in which both the US and Singapore agreed that their respective telecommunications regulator would oversee and ensure that a major supplier in their respective territories provide interconnection[16] and leased circuit[17] services *inter alia* under non-discriminatory terms and rates. Both the US and Singapore have therefore recognized the authority of each others' regulatory authority in overseeing the provision of telecommunication services, such as terminating access services, in their own jurisdiction.

Under the US Communications Act of 1934, as amended, telecommunications carriers like Verizon are required to interconnect with, and offer service to, other carriers, on reasonable request.[18] Carriers are further required to charge "just and reasonable" rates for termination, and are specifically prohibited from discriminating.[19] In order to comply with these requirements, Verizon is required to file tariffs for call termination services, including termination of international calls, which set forth the rates and other

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16 Article 8, Chapter 9 US-Singapore Free Trade Agreement.

17 Article 9, Chapter 9 US-Singapore Free Trade Agreement.

18 See 47 U.S.C. § 201(a).

19 *See id.* §§ 201(b), 202(a).

terms and conditions of service.[20] These tariffs are publicly filed with the US Federal Communications Commission ("FCC"), which has the statutory authority to set aside unjust and unreasonable rates and to prescribe just and reasonable ones.[21]

In addition to these various nondiscrimination and tariffing requirements, the rates that Verizon charges for termination services are subject to direct price controls. In particular, these services are regulated under a comprehensive price-cap regime.[22] This regime prescribes a specific methodology that must be used to set rates for terminating access services. Verizon is required to make regulatory filings with the FCC that demonstrate that its rates comply with this methodology.

Special Access

GTS customers generally require high-capacity local connectivity - that is, they require the physical connection between their premises and the GTS provider's network to be capable of carrying high volumes of voice and/or data traffic. These connections are normally provided over dedicated facilities that run between the customer's various premises, as well as from those premises to the local, regional and/or international network, either directly or through an intermediate exchange facility. These dedicated connections are referred to – often interchangeably – as "dedicated access" or "special access" service.[23]

Special access is, along with certain other telecommunications services, regulated by the FCC. The FCC regime is designed to prevent ILECs such as Verizon from discriminating between their own affiliates that purchase special access and third parties that do so.

Unlike in Singapore and almost every other country in the world, where the incumbents have always been vertically-integrated, two types of telecommunications providers traditionally have operated within the U.S.: local exchange carriers ("LECs") and inter-exchange carriers ("IXCs"). The former are generally suppliers of local telecommunications services, while the latter are generally suppliers of long-distance telecommunications services, with the boundaries between local and long distance dictated by regulation.

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20 *Id.* § 203.

21 *See id.* §§ 204, 205.

22 See 47 C.F.R. § 69.151 et seq.

23 In the United States, MCI uses its own lines for special access or purchases special access from companies like Alltel, Bell South, Cincinnati Bell, Frontier, Qwest, SBC, Verizon, and XO. In other countries, MCI purchases special access from carriers like British Telecom in the United Kingdom, France Telecom in France, Deutsche Telekom in Germany, NTT in Japan, and SingTel in Singapore.

Until the mid 1980s, special access was provided principally by ILECs. Since that time, the FCC has taken a series of steps to liberalize the markets for the supply of special access in the US. The first "competitive access providers" were formed in the mid 1980s, shortly after the breakup of the Bell System. These companies began to build fiber-optic networks in urban areas to provide special access service to business customers.

Between 1984 and 1992, most special access competition took the form of direct connections between large end-users and IXC POPs. In 1992, the FCC declared that these competitive providers "now offer access services to large business customers in the central business districts of many major cities" and that many customers "do not use LEC facilities at all to connect their customer location directly with their long-distance carrier."[24]

In 1992, the FCC opened a second pathway to special access competition: it required ILECs to provide co-location to competitive access providers (referred to as CLECs).[25] This permitted special access competitors to co-locate in an ILEC central office or "wire center" and construct a fiber entrance facility between the central office and IXC POPs.[26] The FCC observed in 1995 that the competitive access industry had "experienced incredible growth, nearly doubling in size each year for the last five years."[27]

In addition to the extensive facilities-based competition for special access, competing carriers are capable of, and are, competing successfully by re-selling special access that they obtain from ILECs. As explained in more detail below, FCC regulations require ILECs to provide this service to all comers, including competing carriers. Competing carriers that purchase special access may re-sell it, which they often do in combination with other services, including various forms of local and long distance voice and data services. For example, more than 80% of Verizon's total special access revenues are generated from sales to other carriers, which use Verizon's special access

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24 *Expanded Interconnection with Local Telephone Company Facilities*, Notice of Proposed Rulemaking and Notice of Inquiry, 6 FCC Rcd 3259, 3260 (1991); Remarks by Richard M. Firestone, Chief, Common Carrier Bureau, FCC, Ninth Annual FCBA/PLI Conference, "Telecommunications Policy and Regulation," FCC, Dec. 2, 1991.

25 *See Expanded Interconnection with Local Telephone Company Facilities*, Report and Order, 7 FCC Rcd 7369 (1992). The Parties note that there can be more than one ILEC in any given State.

26 Central offices are also generally referred to as "wire centers." They are physical structures where the ILEC terminates local lines. A wire center serving area is the basic geographic building block of an ILEC's network – it is the area served by a single central office or wire center.

27 FCC News Release, *Common Carrier Competition*, 1995 FCC LEXIS 3544 (May 31, 1995).

circuits to provide service to their own retail customers (and thereby to compete with MCI, as well as many other GTS providers).

The special access prices charged by ILECs are directly regulated in one of several ways, depending on the level of competition that each faces in a particular geographic area.[28] This regulatory regime is designed to ensure that there is either sufficient competition to keep the ILEC's special access prices in check, or else that those prices are subject to regulatory ceilings.

The FCC has developed a framework to determine which of the three tiers of regulation applies in a particular geographic area and to a particular service type. That framework assesses competition "on an MSA basis," which the FCC has concluded "best reflect[s] the scope of competitive entry, and [is] therefore a logical basis for measuring the extent of competition."[29] An "MSA" is a metropolitan statistical area. This approach, the FCC concluded, provides "a clear picture of competitive conditions," and "an easily verifiable, bright-line test to avoid excessive administrative burdens."[30] As explained below, the framework requires proof of the extent of fiber based co-location.

The FCC has acknowledged that its framework does not attempt to measure one significant form of special access competition – complete bypass of the ILEC's network - which competitors have long provided by running fiber directly to end users.[31] As the FCC concluded, any analysis that disregards full bypass competition must necessarily be a "conservative measure of competition" for special access services.[32]

Under the FCC's framework, ILECs bear the burden of coming forward and making an affirmative showing of competition on an MSA-by-MSA basis in order to secure pricing flexibility within each MSA. Interested parties are permitted to file comments challenging these showings. The FCC then has 90 days to determine that the ILEC has met certain competitive thresholds, before it is granted pricing flexibility. In

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28 Fifth Report and Order and Further Notice of Proposed Rulemaking, *Access Charge Reform*, 14 FCC Rcd 14221 (1999), *aff'd*, *WorldCom, Inc. v. FCC*, 238 F.3d 449 (D.C. Cir. 2001). Under the regulatory framework adopted in the Fifth Report and Order, price cap regulation of special access services is eliminated when certain competitive "triggers" are met. In pending proceedings, the FCC is considering the extent to which those "triggers" adequately capture the competitive dynamic, and will make any adjustments to the regulatory regime it concludes are warranted. The competitive dynamic for special access services thus raises no merger-specific concerns, but instead is a matter that is being directly addressed by the FCC.

29 *Pricing Flexibility Order* ¶ 72.

30 *Id.*, ¶ 78.

31 In discussing competition for entrance facilities, the *UNE Remand Order* likewise did not mention the possibility of complete bypass. *See UNE Remand Order*, ¶ 348.

32 *Pricing Flexibility Order*, ¶ 104.

any area where the FCC has not yet made such a finding, the ILEC's special access prices are subject to regulatory price caps. In addition, the ILEC is required to provide all special access services in such areas pursuant to generally applicable tariffed rates.

Under the FCC's framework, competition is gauged under a two-phase inquiry that measures the fraction of the ILEC's wire center serving areas in an MSA in which competitors have obtained fiber-based co-location. Under the so-called Phase I of the FCC's framework, an ILEC is permitted to offer contract tariffs for those services for which it makes a specific competitive showing. With respect to the link between an ILEC's central office and a customer's premises (which the FCC refers to as a "channel termination"), the ILEC is required to demonstrate that one or more competing carriers have obtained fiber-based co-location arrangements in individual wire centers that generate 65% of the ILEC's special access revenues in the MSA.[33] For other components of the special access circuit – for example, the links between the central office and another carrier's POP – an ILEC is required to demonstrate that competing carriers have obtained fiber-based co-location arrangements in individual wire centers that generate 30% of the ILEC's special access revenues in the MSA.

Under Phase II, an ILEC is entitled to Phase I relief plus the elimination of price-cap regulation for those MSAs where the ILEC demonstrates a significantly higher level of competition for special access services. In particular, for the channel termination component connecting the ILEC's network to the end-user premises, an ILEC is required to demonstrate that competing carriers have obtained fiber-based co-location arrangements that cover wire centers that generate 85% of the ILEC's special access revenues in the MSA.[34] For other components of the special access circuit, an ILEC is required to demonstrate that competing carriers have obtained fiber-based co-location arrangements in individual wire centers that generate 65 percent of the ILEC's special access revenues in the MSA.

Finally, in all cases, ILECs are subject to general non-discrimination obligations and tariffing obligations. In addition, Section 272(e) of the Telecommunications Act requires non-discrimination between affiliates and non-affiliates in providing access services. The Transaction will not alter this situation in any way.

Verizon's special access prices are decreasing. Pricing data are just becoming available for the period in which Phase I and Phase II FCC pricing flexibility became applicable to Verizon in certain MSAs. A careful analysis of that data shows that prices for individual Verizon DS-1 and DS-3 services as well as average Verizon revenue per

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33 *See id.*, ¶ 100.

34 *See id.*, ¶ 150.

special access circuit have fallen steadily for special access services.[35] As is explained in the Taylor Declaration, a document submitted to the FCC on behalf of Verizon in the context of the FCC's current special access rule-making procedure, average special access revenue per line for Verizon fell sharply over the 1991-2004 period and fell faster during the price flexibility period (2001-2004) than during the preceding period (1996-2001). In real terms (*i.e.*, relative to inflation), Verizon's special access average revenue per voice-grade equivalent fell even faster: at 10% per year from 1996 to 2001 and at 16.6% per year from 2001 to 2004. Most impressively, average revenue per line fell significantly faster than required by the price cap index (GDP-PI – X) both before and after the pricing flexibility period.[36]

Moreover, individual circuit data analyzed in the Taylor Declaration show that Verizon's DS-1 and DS-3 special access prices fell between 2002 and 2004, averaging nominal annual reductions of 4.2 and 6.1% per year and real annual reductions of 5.7 and 7.6%, respectively. Over the 1999-2004 period, where full data are available only for Verizon East, annual nominal reductions averaged 3.1 and 3.5% and real reductions averaged 4.8 and 5.2% for DS-1 and DS-3 circuits, respectively.[37]

In short, the prices that Verizon's customers pay for its special access services have been steadily decreasing since 1991, and have decreased even more rapidly since around 2000.

The FCC has determined that competition is sufficient to constrain prices, entitling Verizon to use pricing flexibility in many MSAs. Since the FCC initiated this framework, Verizon has petitioned for and obtained pricing flexibility for a number of its MSAs, based on detailed showings that those MSAs contain levels of competition that satisfy the FCC's thresholds. Verizon has obtained Phase II pricing flexibility for end-user channel terminations in 26 MSAs, and has obtained Phase II pricing flexibility for other components of special access circuits in an additional 62 MSAs. Verizon has obtained Phase I pricing flexibility for end-user channel terminations in one additional MSA, and Phase I flexibility for other components of special access circuits in an 11 additional MSAs. The areas within which Verizon has obtained Phase II relief represent 57% of Verizon's special access revenues, while the additional areas where Verizon has obtained Phase I relief represent an additional 25% of Verizon's special access revenues. In sum, Verizon has obtained pricing flexibility in a total of 73 MSAs that represent approximately 82% of Verizon's total special access revenues.

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35 See, Declaration of William E. Taylor, submitted to the FCC on behalf of Verizon in the *Matter of Special Access Rates for Price Cap Local Exchange Carriers*, WC Docket No. 05-25, ¶ 6. A copy of this declaration is provided in Exhibit 4.

36 *Id.*, ¶ 16.

37 *Id.*, ¶ 26.

Looked at in terms of where MCI has built its limited local fiber facilities, the FCC has determined that, in 26 of the 30 MSAs where MCI has a presence, competition is sufficient to restrain Verizon's special access prices.[38] Competition for special access is continuing to increase but, if that should ever change, the FCC has reserved authority to intervene directly and enforce other measures to control prices.[39]

Verizon has no incentive or ability to favour MCI for special access related to GTS. Verizon has no incentive to upend its entire business model simply to favour MCI for a business that will only be a small portion of the overall company. Verizon sells special access to a wide variety of customers, only a relatively small number of which provide GTS. Because of regulatory constraints, Verizon cannot price discriminate between GTS providers and non-GTS providers when provisioning special access. Verizon would have to raise prices to all special access customers in order to attempt to favour MCI for GTS. As a result, Verizon would stand to lose business from all types of special access customers. At the same time, Verizon would face no assurance that MCI, instead of another carrier, would capture GTS business given that there are many GTS providers world-wide, and many GTS customers for whom US special access is a relatively unimportant input.

Any attempt by Verizon to increase special access prices to "favour" MCI for GTS would also lead customers to obtain access from Verizon's competitors. As noted above, the FCC has determined that competition for special access is sufficient in many areas in which Verizon operates, including major metropolitan areas in Verizon's territory that likely account for much GTS services. The ability of GTS providers to use access suppliers other than Verizon makes it unlikely that Verizon could profitably provide any "advantage" to MCI relative to other GTS providers by raising special access prices.

Special access also remains a regulated product within the United States, with the FCC continuing to monitor special access in ongoing regulatory proceedings. Any attempt by Verizon to increase special access prices to "favour" MCI would be subject to regulatory scrutiny by the FCC.

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38 Further information about the MSAs in relation to which these determinations have been made is provided in Exhibit 5.

39 *Pricing Flexibility Order*, ¶ 56 ("The Commission retains, however, the ability to re-impose some or all of these regulations on one or more of the price cap LECs should this prove necessary in the future. The price cap LECs' provision of these services is also subject to Title II of the Act, enabling the Commission to continue to ensure that the rates are just, reasonable, and nondiscriminatory."); *See* also, *Order and Notice of Proposed Rulemaking, Special Access Rates for Price Cap Local Exchange Carriers*, 20 FCC Rcd 1994, ¶ 5 (rel. Jan. 31, 2005) (Initiating review of pricing flexibility framework on grounds that "we are committed to re-examine periodically rules that were adopted on the basis of predictive judgments to evaluate whether those judgments are, in fact, corroborated by marketplace developments.").

Conclusion. The merged entity will gain no advantage vis-à-vis its GTS competitors by virtue of its control of Verizon's special access network. GTS customers require services at many different locations throughout the world. Consequently, no particular advantage flows from control of special access in a specific place. In any event, in the high density areas in which GTS customers tend to be located, special access competition in the United States is robust and there are many suppliers competing vigorously for GTS providers' business. This is evidenced by Verizon's reduced special access prices and by the significant number of MSAs in relation to which Verizon has obtained pricing flexibility. Moreover, post-Transaction, the FCC's regulation of the supply of special access will ensure that customers are protected from any potential anti-competitive ILEC behavior, even in areas where there are fewer competing suppliers. Thus, the merged entity will not have any advantage vis-à-vis its GTS competitors by virtue of its special access network.

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Based on the foregoing and the accompanying Short Form Consolidation Application, the parties request that the IDA exempt them from filing a Long Form Consolidation Application. In addition, the parties request that the IDA approve their Consolidation Application for the Verizon-MCI consolidation.

CONFIDENTIALITY STATEMENT

Please note that we have submitted two versions of the Abbreviated Statement and one version of the Short Form Consolidation Application. The version marked "confidential" contain commercially sensitive information relating to the Applicant's business, their market share and financials. We request that the confidential version of the Abbreviated Statement be granted confidential treatment, pursuant to Section 11.7 of the Code of Practice for Competition in the Provision of Telecommunication Services 2005.

If you have any queries, please do not hesitate to contact Lance J. Miller or Sally Ting on 6512 9595.

Yours sincerely

Coudert Brothers LLP

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on behalf of MCI, Inc. and Verizon Communications Inc.