

**RESPONSE TO ANALYSIS OF THE ALLIANCE FOR  
COMPETITION IN TELECOMMUNICATIONS (ACTel)**

**Verizon and MCI  
June 2005**

**REDACTED - FOR PUBLIC INSPECTION**

### The ACTel Claims

- On May 9, 2005, a coalition of six CLECs filed with the FCC a declaration by Professor Simon Wilkie in support of their petition to deny the Verizon/MCI transaction, which was largely identical to the Wilkie declaration that these carriers filed two weeks earlier in connection with the SBC/AT&T merger proceeding.
- On June 14, 2005, some of these same carriers, now organized as ACTel, staged a press conference to re-announce the existence of Professor Wilkie's analysis. They also presented a new PowerPoint summary of that analysis, which provides certain additional details that were missing from their original filing.
- ACTel does not disclose the basis for their claims or provide any of the underlying data on which they relied, which makes it difficult to fully evaluate their claims. Nonetheless, the limited information that ACTel does provide makes clear that its claims are unfounded.
- As an initial matter, ACTel recognizes that there is robust competition for business customers at the retail level, which refutes the claims that other carriers have made in this proceeding.
- ACTel claims, however, that combining Verizon and MCI will eliminate competition for high-capacity local facilities, which will in turn jeopardize competition for retail services that rely on these facilities.
- ACTel's claims are misplaced for several reasons:

First, ACTel ignores the extensive presence of competitive fiber suppliers in the areas where Verizon and MCI fiber overlap;

Second, ACTel ignores the fact that AT&T will continue to compete aggressively against Verizon after AT&T's proposed merger with SBC;

Third, while ACTel concedes that special access is an important source of retail and wholesale competition, it ignores the fact that all competing carriers can use special access and wrongly assumes that MCI has unique advantages when it obtains ILEC special access;

Fourth, ACTel ignores the ability of other competing carriers to deploy local fiber facilities to the same locations where MCI has deployed those facilities;

Fifth, ACTel's so-called bidding analysis is based on a single bid that ACTel doesn't disclose, and also appears to ignore the fact that carriers purchase special access from Verizon at heavy discounts.

REDACTED - FOR PUBLIC INSPECTION

1. **ACTel Concedes That There Is Effective Retail Competition For Business Customers.**
  - ACTel states that “CLECs, interexchange carriers (IXCs), and data companies compete to provide services to business customers;” that these various competitors “offer differentiated products”; and that their prices “accurately reveal buyers’ valuations and sellers’ costs.” (Wilkie May 9 Decl. ¶ 10; Wilkie June 14 Pres. at 24-25)
  - ACTel is correct that there is effective retail competition for business customers. And this will remain true following the Verizon/MCI transaction.
    - According to independent analyst studies and Verizon’s internal market-share analysis, Verizon and MCI’s combined share of large enterprise and mid-sized business revenues will be no more than 16-22 percent.
    - Following the transaction, there will still be many strong competitors, including traditional interexchange carriers such as AT&T, Sprint, and Qwest; CLECs like XO and Level 3; systems integrators and managed service providers like IBM, EDS, Accenture, Northrop Grumman, and Lockheed Martin; major global telecommunications providers such as Equant, British Telecom, Deutsche Telekom, COLT, KPN Telecom, and NTT; equipment vendors like Lucent and Nortel; and, most recently, major application providers such as Microsoft.
  - Verizon and MCI are principally combining complementary capabilities with respect to business customers.
    - Verizon and MCI largely focus on different segments of business customers. Large enterprise customers account for the vast majority of MCI’s revenues from serving commercial and institutional customers, but only a small percentage of Verizon’s total business revenues.
    - Verizon is rarely, if ever, a competing prime bidder against MCI on large enterprise contracts. In approximately 94 percent of the instances in which MCI submitted over 800 bids between October 1, 2004, and April 20, 2005, Verizon did not appear as a competitor.

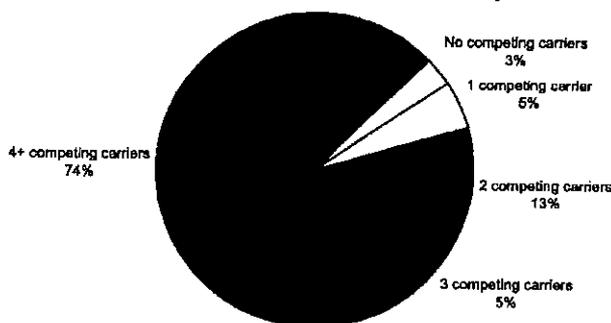
REDACTED – FOR PUBLIC INSPECTION

**2. ACTel Ignores The Extensive Presence of Competitive Fiber Suppliers In The Areas Where Verizon And MCI Fiber Overlap.**

- Although ACTel concedes that there is extensive retail competition for business customers, it claims that the transaction will eliminate competition for high-capacity local facilities that will in turn jeopardize competition for downstream retail services that rely on these facilities.
- As the core of its analysis, ACTel purports to evaluate the “[d]irect horizontal overlap in markets for *wholesale local facilities*.” (Wilkie June 14 Pres. at 2)
- But a true analysis of the “direct horizontal overlap” between Verizon’s and MCI’s “wholesale local facilities” reveals that MCI has deployed only limited facilities in Verizon’s region, and that in each of the areas where these facilities have been deployed there are multiple additional competitive fiber suppliers.

- In the 39 groupings of contiguous wire-center areas in which Verizon and MCI have overlapping fiber, there are more than 90 different fiber suppliers; two or more suppliers in 92 percent of the areas; and at least one supplier in all but one of these areas. *See Figure 1.*
- There is at least one additional competitor in 89 percent of the individual wire center serving areas within these 39 clusters, and an average of nearly six competitors per wire center.
- For every MCI-lit building located in one of the 39 clusters, there is at least one other competing carrier within the area of the overlap.

**Figure 1. Other Fiber-Based Carriers in Areas Where Verizon and MCI Facilities Overlap**



**REDACTED – FOR PUBLIC INSPECTION**

- ACTel nonetheless claims that this transaction will eliminate competition at the individual building level, but that too is wrong.
  - Based on the lit-building lists provided by the limited subset of nine CLECs that provide dedicated access services to MCI, those nine CLECs alone provide fiber to nearly half of MCI's on-net buildings in the Verizon-East (*i.e.*, former Bell Atlantic) footprint.
  - With respect to the six metropolitan areas that ACTel analyzes, among the lit-buildings that MCI is aware of (including MCI's own lit buildings as well as the lit-buildings lists provided to MCI by other carriers), there is one or more fiber supplier other than MCI in at least 89 percent of the lit buildings in Albany; 82 percent in Baltimore; 92 percent in Pittsburgh; 94 percent in Philadelphia; 94 percent in New York; and 46 percent in Washington, DC.
  - As ACTel concedes, any analysis of competition at the building level also should take into account the existence of competitors using special access, and Verizon's data show that, when the use of Verizon's special access is taken into account, 92 percent of MCI's lit buildings in Verizon's territory have at least one other competitive provider.
  - The data on which ACTel relies appears to count buildings that MCI and AT&T serve using special access, but does not appear to count all of the buildings that other CLECs serve in the same manner. Moreover, as described below, other CLECs can use special access to serve the same locations as MCI, which does not have any unique advantages in this respect.

REDACTED – FOR PUBLIC INSPECTION

**3. ACTel Ignores The Fact That AT&T Will Continue To Compete Aggressively Against Verizon After AT&T's Proposed Merger With SBC.**

- ACTel not only fails to analyze competition for actual wholesale facilities, but also does not even attempt to measure the only conceivably relevant effect here – the absence of MCI alone from the relevant area.

- ACTel instead analyzes the effect of removing both MCI and AT&T from the relevant market.

- This obviously skews the analysis because AT&T is one of the largest competitors in each of the overlapping areas.

- When this flaw alone is corrected, ACTel's entire analysis falls apart, because MCI serves only a small percentage of total CLEC buildings in Verizon's region, including the six metropolitan areas that ACTel analyzes (e.g., only 6 percent in New York).

- Moreover, as explained above, other CLECs already serve the same buildings as MCI, or could extend their networks to those locations either by deploying additional fiber or using special access.

- ACTel's claim that the combined Verizon/MCI and SBC/AT&T will stop competing following the mergers is based on the erroneous assertion that Verizon and SBC do not compete today.

- ACTel attempts to prove this using the example of a single metropolitan area, Los Angeles, where Verizon and SBC operate side-by-side, but its claims are wrong.

- Verizon has deployed 300 miles of optical network facilities in SBC's territory in Los Angeles to compete directly with SBC. *See* Map 1.

- **[BEGIN CLEC PROPRIETARY]**

**[END**

**CLEC PROPRIETARY]**

- Of course, Los Angeles is not the only place where Verizon and SBC compete.

- Verizon competes for enterprise customers in 28 out-of-franchise areas, 17 of which are in SBC's service area.

**REDACTED – FOR PUBLIC INSPECTION**

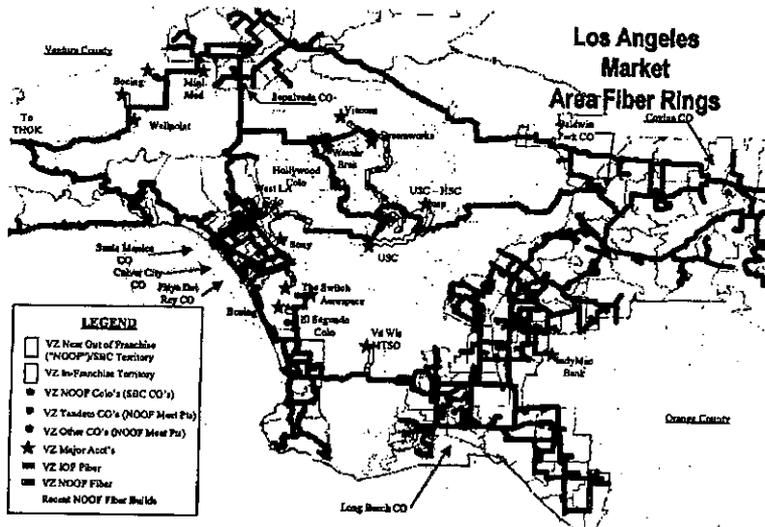
▪ **[BEGIN CLEC PROPRIETARY]**

**[END CLEC PROPRIETARY]** SBC has recently won a number of major enterprise contracts such as the Red Cross, VHA, Maritz, Bob Evans Farms, all of which involve the provision of service in parts of Verizon's region.

- Verizon and SBC compete directly in the provision of wireless services nationwide.
  - Verizon's VoiceWing VoIP service competes with SBC by offering area codes in 11 of SBC's 13 states.
- It is economically irrational to assume that Verizon or SBC would purchase MCI's and AT&T's businesses and then choose not to compete.
    - A key purpose and benefit of the Verizon/MCI transaction is the increased ability of the combined company to compete on a national and global scale. It is simply not credible to suggest that Verizon and MCI would combine and then abandon their business in the extensive SBC region.
    - In addition, any attempt at tacit collusion with SBC would result in both companies losing business to competitors willing and able to provide service in both Verizon's and SBC's regions. This would be economically irrational, and there is accordingly no basis to assume that either company would behave in this manner.

**Map 1.**

**Los Angeles Out-Of-Franchise Fiber Network**



**REDACTED - FOR PUBLIC INSPECTION**

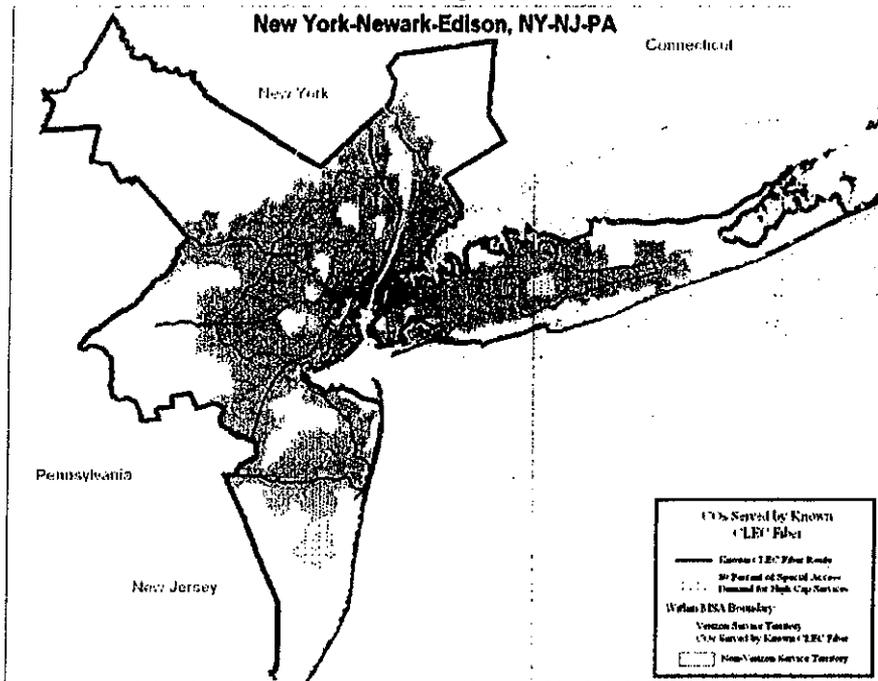
- 4. While ACTel Concedes That Special Access Is An Important Source Of Retail And Wholesale Competition, It Ignores The Fact That All Competing Carriers Can Use Special Access And Wrongly Assumes That MCI Has Unique Advantages When It Obtains ILEC Special Access.**
- ACTel concedes that carriers may “play a critical role” as “wholesale suppliers to other competitive providers at rates far below ILEC special access rates by . . . reselling a combination of their own facilities and facilities purchased from the ILEC at substantial discount.” (Wilkie June 14 Pres. at 3)
  - Although ACTel claims that the transaction will remove MCI as an important wholesale supplier of resold special access, MCI in fact has no unique capabilities.
    - MCI does not provide special access on a wholesale basis except where at least some of its own facilities are used.
    - To the limited extent that MCI resells Verizon special access together with its own facilities, MCI does not have any unique capabilities that enable it to resell special access at rates lower than those available to other competitive suppliers.
    - The same term and volume discounts that are available to MCI also are available to other carriers and aggregators.
    - Other CLECs are collocated in the same wire centers as MCI, which makes it easy for them to obtain special access.

REDACTED – FOR PUBLIC INSPECTION

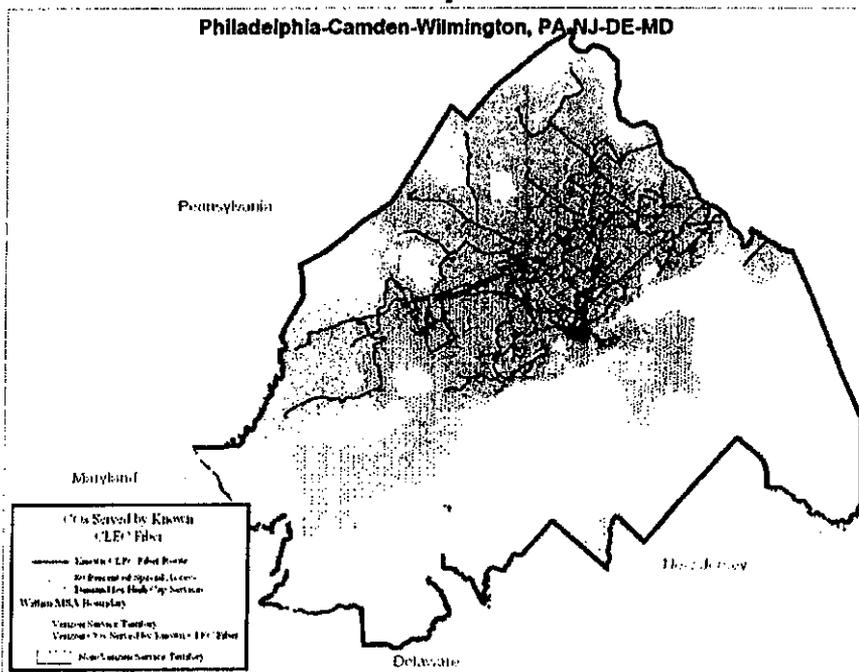
5. **ACTel Ignores The Ability Of Other Competing Carriers To Deploy Local Fiber Facilities To The Same Locations Where MCI Has Deployed Those Facilities.**
- The attached maps show that in each of the six MSAs that ACTel analyzes, there is extensive competitive fiber in each MSA. *See Maps 2-7.*
    - In 89 percent of the individual wire center serving areas where MCI has fiber overlapping with Verizon, there is at least one additional fiber provider, and an average of nearly six fiber-based competitors per wire center.
    - This competitive fiber can readily be extended to serve additional buildings, including those where MCI provides service.
  - The fact that MCI extended fiber to certain buildings within these MSAs is proof that other competing carriers can do the same thing.
  - Based on the Commission's prior findings, other competing carriers should be able to deploy fiber to the buildings where MCI has found it economic to do so.
    - MCI's fiber-lit buildings are located in dense urban wire centers, the vast majority of which meet the triggers the Commission established for DS3 facilities.
    - At least 80 percent of MCI's lit buildings are in locations that meet the "triggers" the Commission established for determining where competing providers are capable of deploying their own high-capacity facilities.
    - In more than [BEGIN PROPRIETARY] [END PROPRIETARY] of the MCI-lit buildings in the six metropolitan areas that ACTel analyzes, MCI is providing at least two DS3 equivalents or more, which the Commission has found is sufficient demand to support new fiber deployment to any building anywhere by a reasonably efficient CLEC.

REDACTED – FOR PUBLIC INSPECTION

Map 2

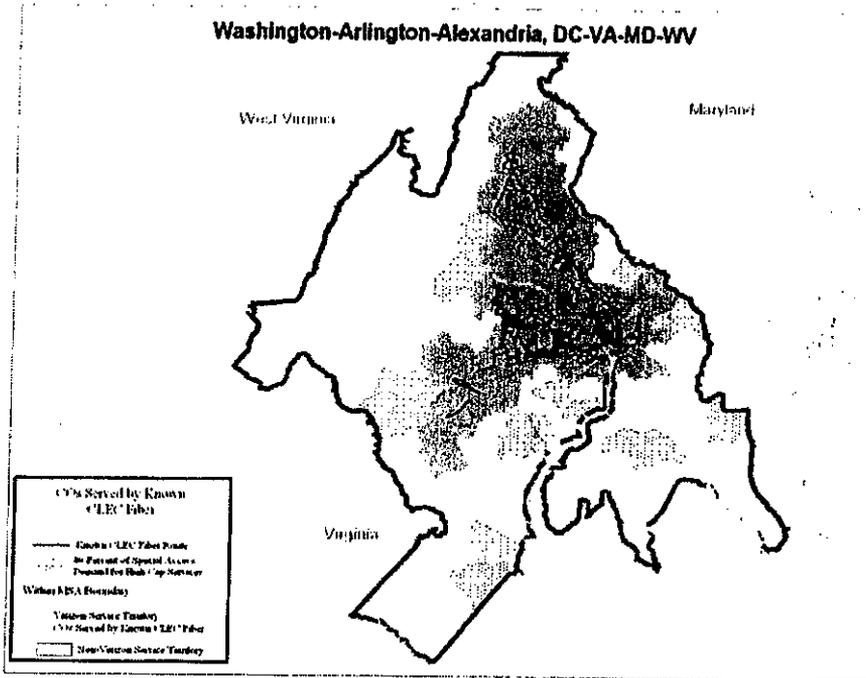


Map 3

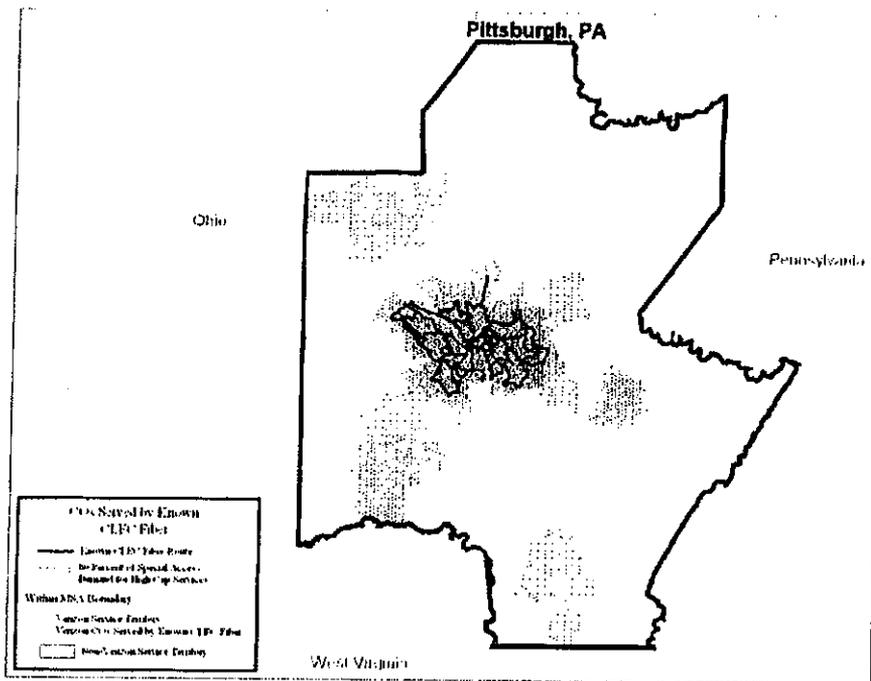


REDACTED - FOR PUBLIC INSPECTION

Map 4

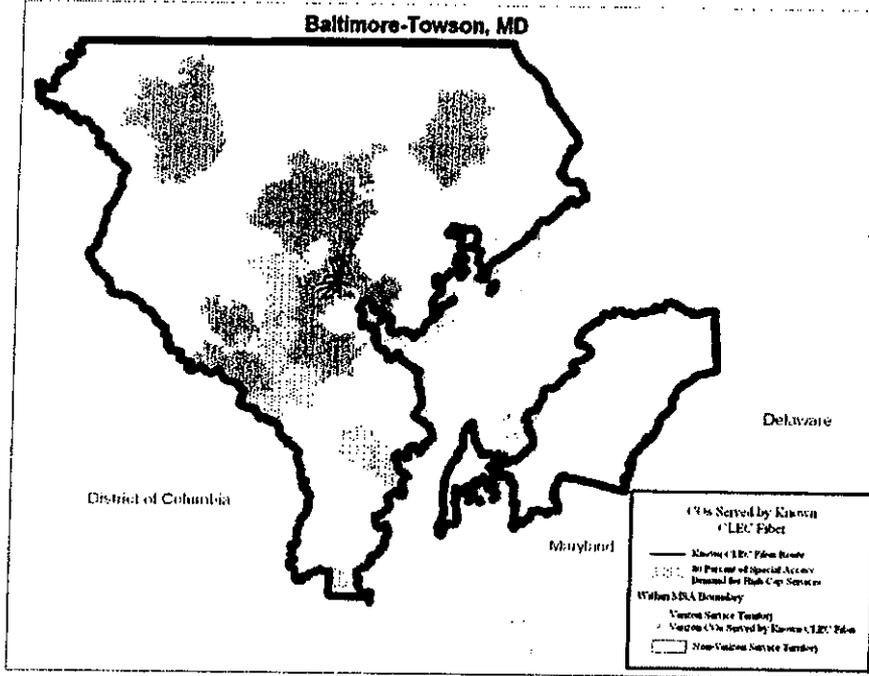


Map 5

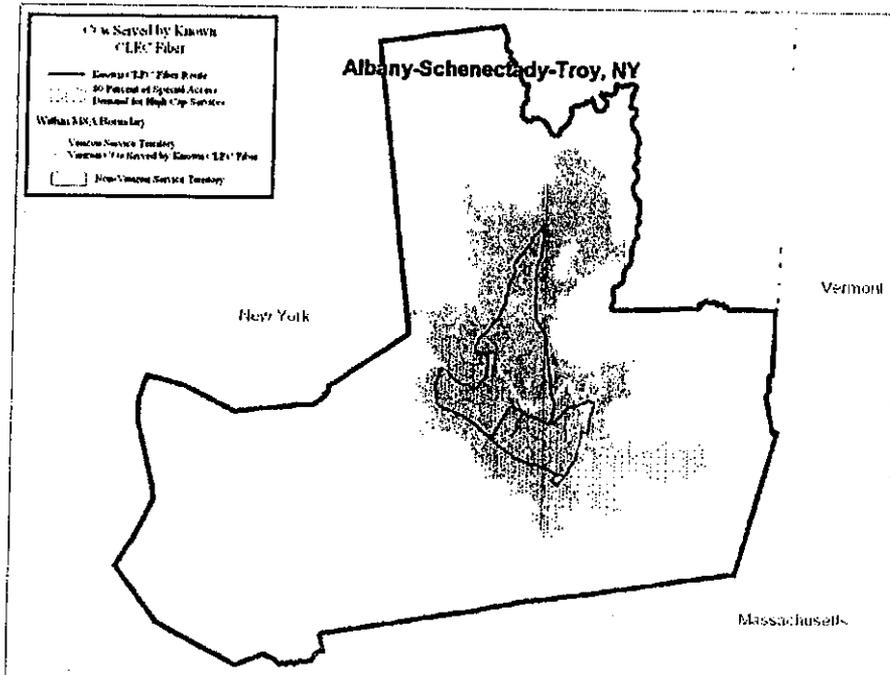


REDACTED - FOR PUBLIC INSPECTION

Map 6



Map 7



REDACTED - FOR PUBLIC INSPECTION

**6. ACTel's So-Called Bidding Analysis Is Based On A Single Bid That ACTel Doesn't Disclose, And Also Appears To Ignore The Fact That Carriers Purchase Special Access From Verizon At Heavy Discounts.**

- ACTel purports to analyze RFPs for wholesale special access services, which it uses to hypothesize how much average bid prices would increase by removing MCI and AT&T, who they claim are the most frequent bidders for high capacity services.
  - As explained above, other competitors have deployed facilities in the same locations as MCI and there is no basis to exclude AT&T from the analysis
- ACTel's source information is vague and inadequate. Although they claim to have reviewed data from multiple bids, they do not identify a single one.
  - ACTel instead provides a single "illustrative example" of a competing bid, but does not even identify the location of that bid, the carriers involved, the types of services, or when it took place.
  - ACTel also claims to have performed a regression analysis, but does not provide the results of the analysis, much less the underlying data.
  - ACTel also fails to indicate which ILEC rates they use in their analysis, but it appears that they may have used tariffed based rates.
    - Competing carriers typically purchase special access services from Verizon at discounts that are approximately 35 to 40 percent off the tariffed base rates for these services.
    - If ACTel did in fact fail to take account of these discounts, that one correction alone would eliminate between two-thirds and four-fifths of the price increase that they purport to identify.
- ACTel fails to recognize the ability of other carriers to come in to compete if there is an opportunity to attract new business.
  - Because there is competing fiber in virtually every area where MCI and Verizon overlap, these other carriers can extend their own network to bid for services.
  - Competing carriers also can use ILEC special access to fill-in the gaps of their network, which enables them to bid for multi-location contracts even where they do not have facilities in every location.

REDACTED - FOR PUBLIC INSPECTION