

Business Data Services: Proposals vs Market Realities

August 25, 2016



The Proposed Cuts to BDS Rates Will Not Achieve Broadband Objectives

- **The proposal is a disincentive for future facilities-based deployment.**
 - ILECs and other potential entrants lack incentive to invest in new areas given uncertain return on investment.
 - Google Fiber’s decision to retreat from new infrastructure deployment and lease dark fiber demonstrates the economic disincentives to invest in network infrastructure even in dense areas.
 - Source: Sean Buckley, [Google Fiber’s struggles highlight value in using existing dark, shared fiber assets](#), Fierce Telecom, Aug. 22, 2016.
- **The FCC’s proposal will not further 5G deployment.**
 - The backhaul market for DS1 and DS3s is shrinking dramatically and is not relevant to 5G.
 - There is already extensive competition for Ethernet backhaul services.
 - Verizon has confirmed that it has migrated off of DS1/DS3 technology for Ethernet products, and its focus for 5G is on dark fiber, not BDS.

“When we went from EVDO to 4G and this notion of you can light up a cell site with 4 or 5 T-1s and you get 1.5 Mbps circuit with each circuit costing a couple hundred dollar or you can light up with a 50 or 100 Mbps service and the equivalent cost is drastically lower. With 5G we do believe that dark fiber and lighting up ourselves is the better way to go from a cost point of view so we’re pre-positioning ourselves to do so.”

– David Small, EVP Wireless Operations, Verizon

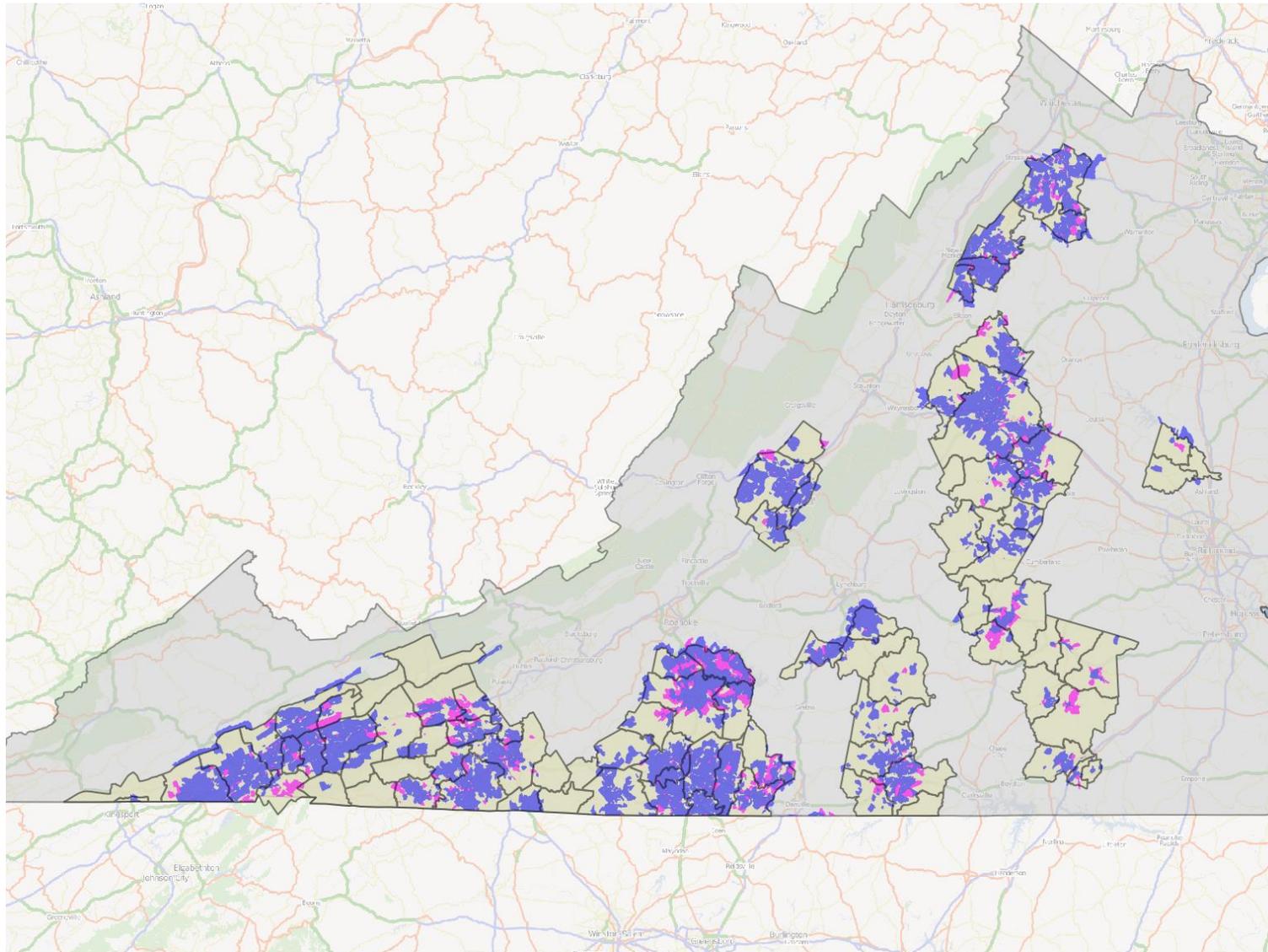
- Source: Sean Buckley, [Verizon sees potential in dark fiber-based 5G backhaul](#), Fierce Telecom, Aug. 11, 2016.

The Verizon-Incompas Proposal Is Harmful to U.S. Broadband Goals, Based on Faulty Assumptions, and Administratively Infeasible

- The proposal’s initial 15% rate cut over two years plus additional 4.4% minus inflation annual reductions would cause real-world harms without any corresponding public benefit:
 - **Jobs:** Potentially thousands of CenturyLink and Frontier union jobs are at stake.
 - **[Begin Confidential Information]** [REDACTED]
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[REDACTED] **[End Confidential Information]**
- There is no basis for a claim that TDM services are non-competitive in all areas.
 - Cable competition has grown since 2013.
 - Cable competitors readily admit to providing competition for T-1 Service:
 - "Some of the customers of the LEC or the CLECs as well are looking at delivery over T-1-based services in those locations, but now we can hit them with 1 Mbps all the way up to 10 Gbps in a variety of different fashions depending on how those networks are configured." --*Paul Savas, Vice President of Comcast Business in New Hampshire and Vermont*
 - Sean Buckley, [Comcast Business challenges FairPoint by deepening New Hampshire, Vermont Ethernet reach](#), Fierce Telecom, Mar. 3, 2015.
 - USTelecom survey demonstrates that business data service users consider “best efforts” cable service as a TDM business data service substitute.
- A census block-based solution is irrelevant to how the market functions and cannot be administered.

Virginia: Cable Broadband Expansion Since 2012

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2012 Cable Area

3,223 Square Miles
258,760 Housing Units
10,131 Firms

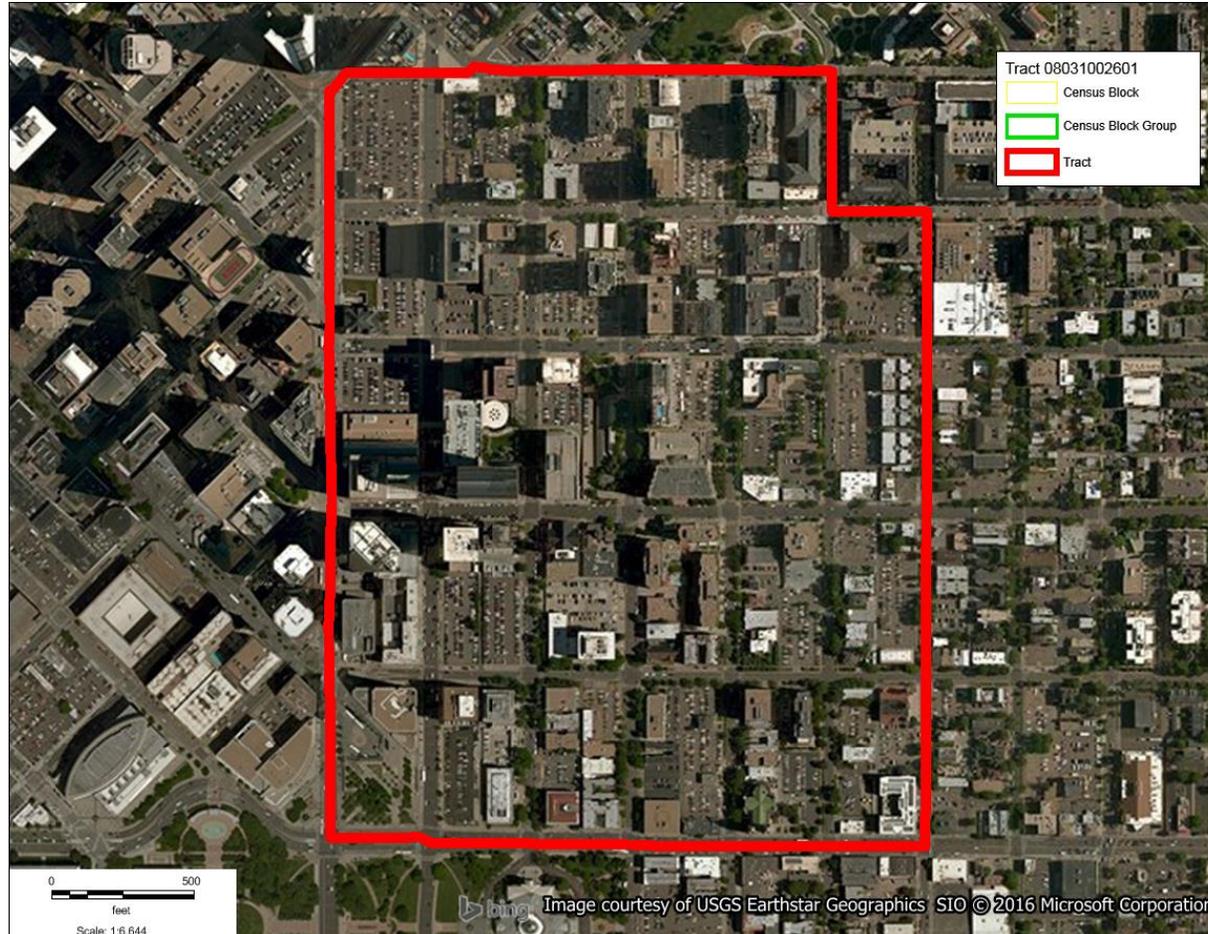
Expanded Cable Area

552 Square Miles
18,335 Housing Units
1,191 Firms

- Cable as of 2012
- Cable Expansion After 2012
- CenturyLink Exchange

2012 Cable Broadband source: US Dept of Commerce, National Telecommunication and Information Administration, State Broadband Initiative June 30, 2012. Cable expansion derived from Fixed Broadband Deployment Block Data as of June 30, 2015. Version 2 from <https://www.fcc.gov/encyclopedia/broadband-deployment-data-fcc-form-477>. Portions of the map data are ©2006-2016 TomTom and portions of the map data are ©2016 CenturyLink.

Geographic Areas: Census Tract



Count

1

Area

0.20 Sq.Mi.

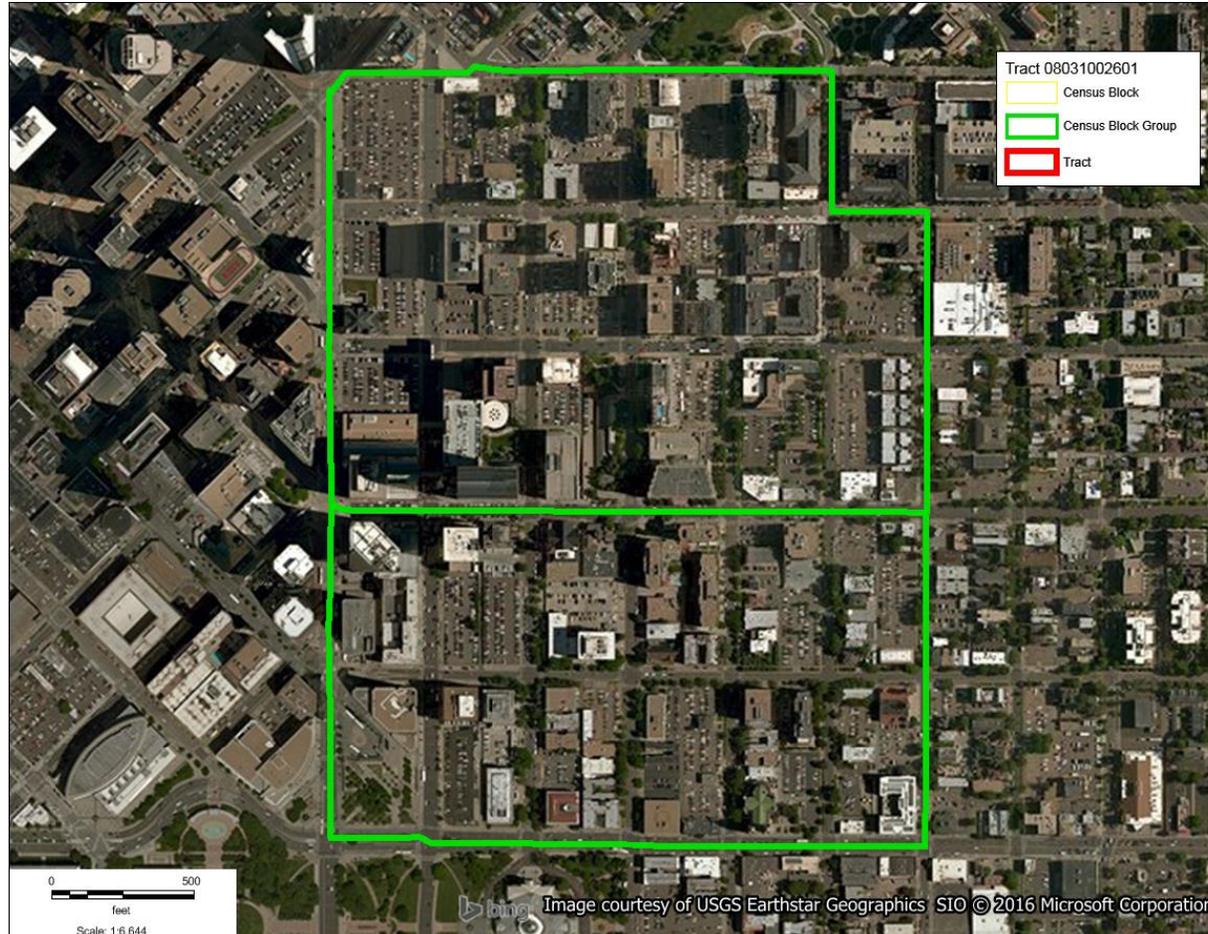
Firms

128

Population

3,722

Geographic Areas: Census Block Group



Count

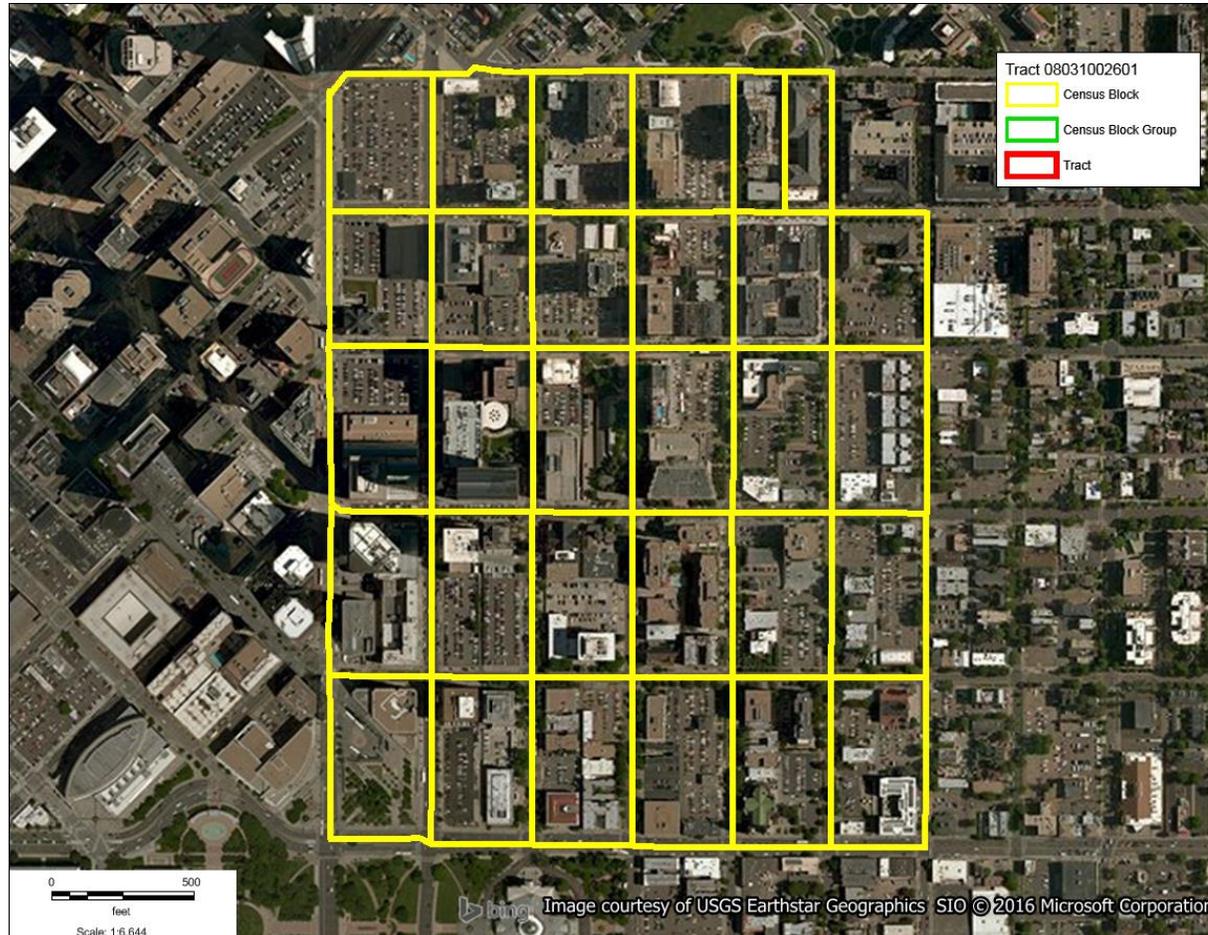
2

Avg. Area
0.10 Sq.Mi.

Avg. Firms
64

Avg. Population
1,861

Geographic Areas: Census Block



Count

33

Area

0.006 Sq.Mi.

Avg. Firms

4

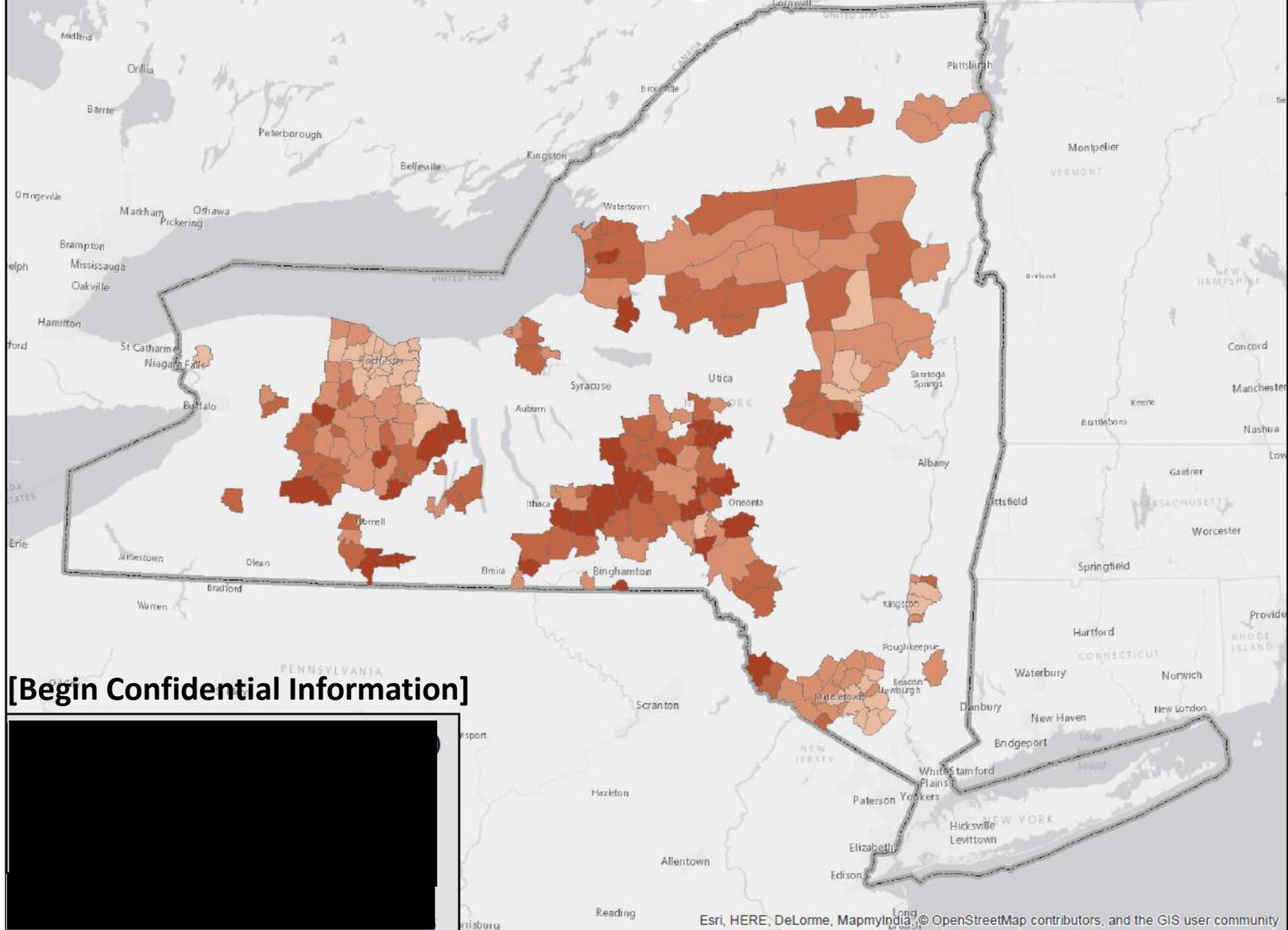
Avg. Population

112

Flat BDS Rate Cut Proposals Do Not Match How the TDM Market is Priced

- DS1/DS3 Pricing is frequently averaged to balance urban and rural economics.
- The areas most likely to be deemed non-competitive are likely to be the areas with the highest costs of service because there is limited economic incentive to deploy there.
- Many of these areas have DS1s and DS3s priced below cost, due to rate averaging, which would then be driven further below cost if the FCC adopts flat BDS rate cuts.

DS1 Circuit Estimated Costs as a Percentage of Statewide Average Costs



The Ethernet Market is Highly Competitive

- There are many different competitors in the Ethernet Market.
- Verizon-Incompas' proposal to benchmark Ethernet off of TDM rates is an economically flawed proposal, unnecessary, unduly complicated, and does not account for market realities of the TDM pricing or the historical framework underlying the TDM pricing structure.

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