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COMPETITIVE TELECOMMUNICATIONS ASSOCIATION

ADVANCING GLOBAL COMMUNICATIONS THROUGH COMPETITION

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CompTel

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

May 11, 2001

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Via Hand Delivery

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Ex Parte Presentation in CC Docket No. 96-98

Dear Ms. Salas:

Pursuant to Section 1.1206 of the Commission's rules, the Competitive Telecommunications Association ("CompTel") hereby gives notice that on May 10, 2001, its representative, and representatives of CompTel member Metropolitan Telecommunications had two meetings with Commission staff to discuss CompTel's Petition for Reconsideration in the above-referenced proceeding. Separately, CompTel met with Kyle Dixon, Legal Advisor to Chairman Powell, and Glenn Reynolds and Michelle Carey of the Common Carrier Bureau.

In these meetings, CompTel reiterated its request that the Commission find that competitors will be impaired in their ability to provide service to customers requiring DS0 level service, unless they are able to access the unbundled local switching element to serve customers with at least 20 lines in all areas of the country, including Zone 1 in the top 50 MSAs. CompTel explained that unless carriers, such as MetTel are allowed access to unbundled local switching to serve customers requiring as many as 20 lines, these carriers will be impaired in their ability to provide service to the 4-20 line customer market. These customers are a necessary adjunct to the residential customer base most frequently served by UNEP-based carriers.

CompTel also explained that raising the number of lines for which unbundled local switching is available to CLECs will not discourage any competitive facilities deployment. Rather, access to this customer segment, on a UNEP basis, is a necessary precondition to these carriers being able to acquire enough customers with a sufficient geographic concentration to make self-provisioning of switching economically efficient

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Representing MetTel were Marshall Aronow, CEO, and Andoni Economou, COO. Representing CompTel was the undersigned attorney. During the meetings a presentation was also distributed. Copies of this presentation are attached to this letter.

Sincerely,

Jonathan Lee

Jonathan Lee
Vice President,
Regulatory Affairs

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Your Local Phone Company

"...foster competition...
...lower costs to consumers..."

Quote from:

Telecom Act of 1996

Background

- MetTel, an Integrated Communications Provider, was founded in 1996 serving residential and business customers:
  - First CLEC to offer UNE-P in the country
  - MetTel has traditionally been and is currently serving mostly residential customers:
    - 80% of customer base is residential
  - MetTel is headquartered in Manhattan
- MetTel provides both circuit switched voice and data services utilizing a combination of platforms:
  - UNE-P
  - ATM SONET network
  - MetTel is is now offering data services (through its own network), voice services and ISP services
- Service area:
  - New York, Pennsylvania and New Jersey
  - Expansion into other states planned for 2nd half 2001

Competitive Landscape for Alternate Providers

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High Margin
High Cost of Entry

Low Margin
Low Cost of Entry

Circuit Switched Based Providers

Markets only to business customers to payback huge facilities Investment.

UNE-P Providers

The primary Provider to residential and small businesses in under served areas, e.g. Red Zones.

Resale Providers

Markets only to business customers since slim resale margins require maximum efficiency in sales & marketing efforts afforded by larger accounts.

Current Competitive Environment

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- Verizon's market share has remained virtually unchanged since 1999 while CLEC penetration has been slow to gain velocity:
  - Verizon maintained over 97% of it's market share in 2000 versus 1999 (95.6% in 1999 versus 93.9% in 2000)
  - By contrast, all CLEC's only gained 2.3 percentage points over that same period.

- 2001 CLEC Market Share figures are expected to ***decrease*** due to the poor performance of the CLEC segment:
  - 27% of all publicly traded CLEC's went bankrupt or were taken over in past 12 months
  - Delivery time of ILEC services to CLEC's has continued to increase.
  - ILEC's continue to pay record penalty sums to the FCC/ PUC funds and CLEC's rather than comply with mandatory competitive rules and regulations.

What went wrong?

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- Creating Circuit Switched Based Facilities is not a "market entry" play:
  - requires significant time and capital both of which are premiums in the current business environment.
- "Resale" model did not provide adequate margins to fund a "smart build" strategy.
- CLEC's required significant marketing dollars to attract a critical mass of customers:
  - erratic funding flows did not deliver the required customer acquisition goals to compensate for substantial cash burn rates.
- Regulatory volatility impeded stable, long term business planning for all alternate Providers.

What went right?

- The use UNE-P as a "market entry" strategy created strong and healthy CLECs that could then fund the significant investment needed for the "Facilities Owned" build-out:
    - enabling voice *and* data competition
- McLeod Communications is a success case history:
    - extensive use of UNE-P as a market entry play achieved margins and critical mass to justify network build-out.
    - currently utilizes all available platforms as marketplace and customers require.
    - can *profitably* service both residential and business customers with a robust set of offers/ services

Why the <4 Line Restriction Will *Decrease* Competition

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- Prohibiting UNE-P providers from servicing the business market segment will create an "uneven" playing field favoring the ILEC's followed by Circuit Switched Based Facility Carriers:
    - no effective way to efficiently market only to "qualified" business customers
    - undermines (if not eliminates) all operational and administrative efficiencies heretofore achieved by CLECs.
- UNE Providers are virtually the only alternate carriers in "Red Zone" areas:
    - these areas do not have the critical mass to justify a Circuit Switched Based Facility provider entry

Why the <4 Line Restriction Will *Decrease* Competition

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- CLEC's need the business segment to help offset the costs of providing service to residential customers:
  - cost to acquire and service both customer segments are virtually the same, but the revenue ratio is 3:1 -- business/ residential
  - regulatory historical precedent

- Self provisioned switching is not a substitute for ILEC switching:
  - market entry costs require substantial switching investment
  - recent performance of this sector has clearly demonstrated that achieving a critical mass of customers is a longer process than the investment community is willing to tolerate.

Conclusion

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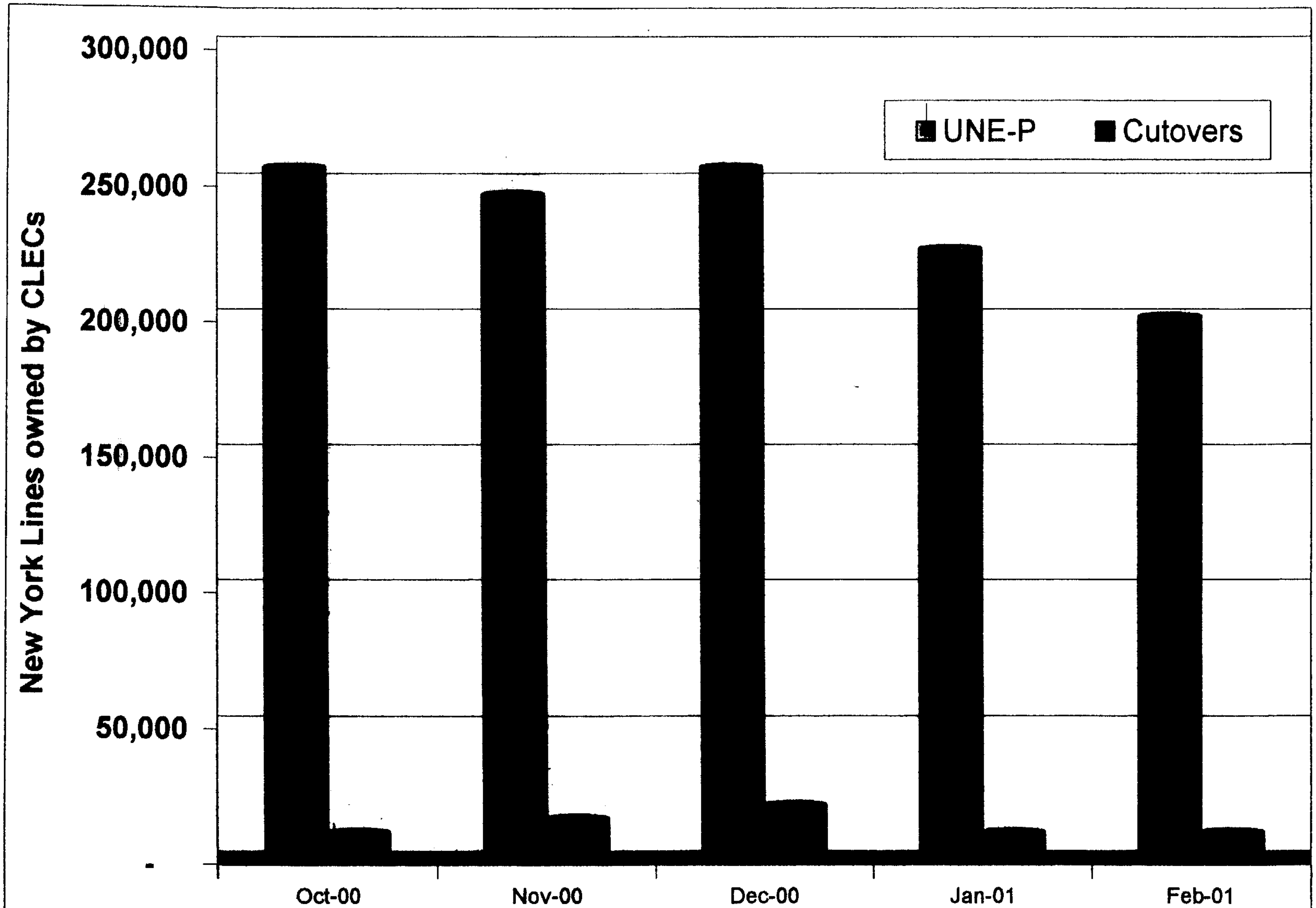
- The opportunity to operate as a UNE-P provider for all business customers encourages:
  - more Service Provider players
  - more employment opportunities for sales, service and marketing talent
  - technological innovation in Telecommunications which migrates to the residential segment
  - other entrants to duplicate the business model that enabled McLeod's success in this space
  - CLEC's ability to provide data communications services to all business customers:
    - DLEC failures are leaving hundreds of thousands of small businesses "stranded"
  - Revitalization of investment in the CLEC space since robust ROI's can *only* be achieved by selling to all businesses



Source: PACE Coalition (Washington, D.C.)