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Ex Parte

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

RE: Section 251 Unbundling Obligations for Incumbent Local Exchange Carriers, CC Docket No. 01-338; Implementation of Local Competition Provision of the Telecommunications Act of 1996, CC Docket No. 96-98; Deployment of Wireline Services Offering Advanced Telecommunications Capability, CC Docket No. 98-147 – REDACTED VERSION

Dear Ms. Dortch:

Yesterday, Verizon met with Commissioner Abernathy, Senior Legal Advisor Matt Brill and Jeffrey Harris regarding the above proceeding. Representing Verizon were Ms. Virginia Ruesterholz, Mr. Mike Glover and I. The attached were reviewed at that meeting.

Please let me know if you have any additional questions.

Sincerely,

Dee May

Attachments

cc: M. Carey
J. Carlisle
J. Harris
C. Libertelli
T. Navin

REDACTEDFOR PUBLIC INSPECTION

ATTACHMENT 1

A Working Wholesale Market Exists for High Capacity Services

- **Market Characteristics:**
  - First segment open to competition (Circa 1980s)
  - Demand highly concentrated
    - 80% in less than 8% of wire centers and majority in top 20 MSAs
    - Demand further concentrated in a limited number of buildings
  - Development of competition parallels previous LD experience
  - Competing carriers response:
    - Targeted facilities to address concentrated demand
    - Extensive use of discounted Special Access to supplement their networks.
  - Verizon's high capacity business:
    - Heavily concentrated on providing wholesale service to other carriers (80% of Verizon Special Access revenues from sales to carriers)
    - Vast majority of non-carrier sales to larger enterprise customers

HiCap Facility-Based Competition is Strong

- **Facility "Build vs. Buy" decisions have been occurring and will continue with continued market-based pricing:**
  - 20 competing networks deployed in each of top 50 MSAs
  - 180K route-miles of fiber in place
    - ATT = 20K route-miles
    - Time Warner = 19K route-miles; 911K fiber miles
  - Fiber deployed to 65% of buildings with >$6M in telecom spending
    - 50% of buildings with $2-4M in telecom spending
  - Thousands of buildings with live, alternate access networks
    - ATT = 6,400
    - Time Warner = 4,576 directly on net; 17,690 total served
  - CaTV providers used for high-capacity services in:
    - 41% of large businesses
    - 32% of medium businesses
    - 44% of small businesses

Special Access Market-Based Pricing

- **Current pricing is based on market-place competition**
  - Extensive competition for wholesale business
  - Verizon competing for this business
- **Competitors successfully compete across all market segments using Special Access, not UNEs:**
  - 3 highest-growth CLECs serving medium and small businesses showed significant year-over-year unit growth
  - Top 3 Carriers serve nearly 50% of the Enterprise market
  - 93% of DS1s purchased as special access (not UNEs)
    - 90% when the top 3 carriers are excluded
- **Wholesale business is growing while retail is not**

Customer Profile: No. 1 Growth CLEC

- **Recognized as a premier CLEC in the Northeast**
  - Rapid expansion to other US markets
    - Target customers include hospitals, universities, financial institutions, and hospitality industry
- **Special Access used exclusively for all network requirements**
  - 6,688 DS-1s in 12/02 to 12,313 in 6/04
- **Collaboratively developed Special Access pricing plan**
  - Provides incremental discounts on top of existing discount plans
    - Additional "Total Billed Revenue" plan
- **DS-1 unit-price trend**
  - 21% price reduction per circuit over the last 18 months

Negative Impact of Further Price Reductions

- **Moving Special Access rates to existing TELRIC thresholds (i.e., a 35% price drop from $254 to $168) will drive negative behavior:**
  - Disrupt working wholesale business
  - Less capital deployment by alternative providers

Bottom Line: Reversal of policies that produced a working competitive wholesale market will produce less investment in infrastructure and less facility-based competition

ATTACHMENT 2

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