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September 9, 2004

**Ex Parte**

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

**Re: In the Matter of Petition for Waiver of Pricing Flexibility Rules for Fast Packet Services; Petition for Forbearance Under 47 U.S.C. Section 160 (c) from Pricing Flexibility Rules for Fast Packet Services, WC Docket No. 04-246**

Dear Ms. Dortch:

On September 9, 2004, Ed Shakin, Fred Moacdieh, Tom Maguire, and the undersigned, on behalf of Verizon, met with Deena Shetler, Judith Nitsche, Jay Atkinson, and Marvin Sacks of the Wireline Competition Bureau to discuss the above captioned proceedings. The attached document formed the basis of the discussion.

Please do not hesitate to contact me with any questions.

Sincerely,

/s/Joseph Mulieri

Attachment

cc: D. Shetler  
J. Nitsche  
J. Atkinson  
M. Sacks



# Fast Packet Service Pricing Flexibility Relief

Thomas F. Maguire  
Verizon  
Frame Relay Offer Management



# Pricing Flexibility for Fast Packet Services

## Why Relief for Fast Packet Services

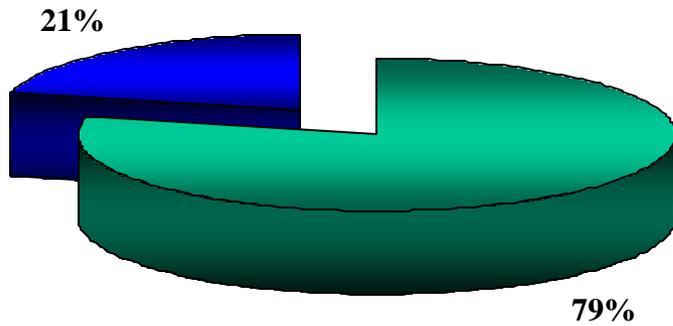
- The ability to offer pricing flexibility contracts would place Verizon on equal footing with the other competitors and price cap LECs in the fast packet market, would help customers by providing more options and better service innovation and would promote competition
- Currently, IXC's avail themselves to Price Flex special access and Term/Volume pricing to connect end-users to their own Fast Packet switch networks
- Verizon requires at a minimum immediate pricing flexibility relief so that it can respond to competitive pressures with product offers such as custom contracts/prices that are responsive to these customer demands
- Customer needs: Fast packet customers are large and sophisticated enterprise businesses that are accustomed to integrated customer-specific solutions:
  - Customer specific, flexible contract terms
    - Technology Migration, Service Level Agreement, Total Revenue discounts, Multiple Product discounts
  - Customized pricing based on term/volume, Total Revenue etc.
  - Rates independent of jurisdiction



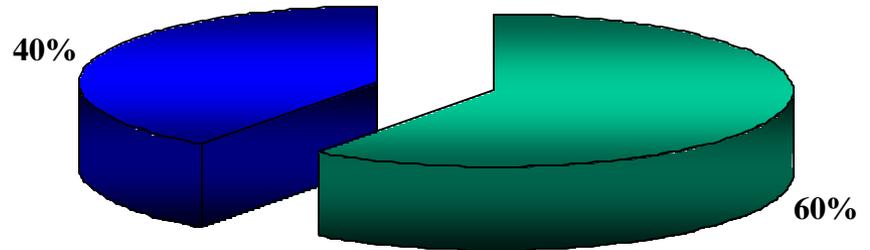
# Pricing Flexibility for Fast Packet Services

## The Fast Packet Market

### Frame Relay



### ATM



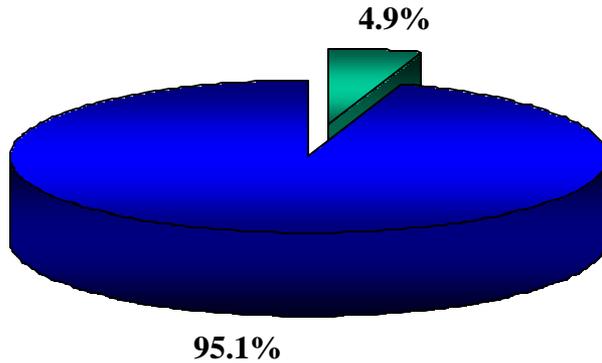
Source: M. Bowen, et al., Schwab Soundview Capital Markets, AT&T Corp. at 3 (Jan. 21, 2004).



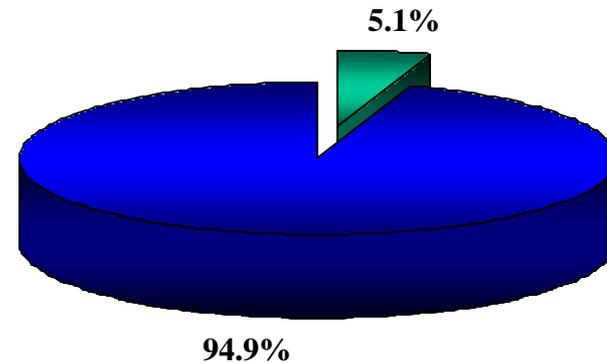
# Pricing Flexibility for Fast Packet Services

## The Fast Packet Market (Cont.)

### Frame Relay



### ATM



Source: M. Bowen, et al., Schwab Soundview Capital Markets, AT&T Corp. at 2 (Jan. 21, 2004).



# Pricing Flexibility for Fast Packet Services

## Regulatory Obstacles to Effective Competition

### Case Study: Mid-Sized Long Island Bank

- Long Island based retail bank with 95 branches across Long Island with host data centers in NY and NJ
- Verizon Enterprise customer with total billed revenue of \$1.5M annually
- Under 5 yr. FCC Contract for 384k Frame Relay Service (FRS) at remote branches and DS3's at host data centers
- IXC offered flexible contract terms foregoing non-recurring charges, termination liability in addition to local access (UNE) to access LD FRS pricing
- Verizon countered with discounted LD FRS pricing but was forced to offer FCC #20 tariff pricing for "local" FRS with standard terms and conditions
- IXC's customized solution resulted in a monthly savings of \$18K over Verizon's tariffed rates



# Pricing Flexibility for Fast Packet Services

## Regulatory Obstacles to Effective Competition (Cont.)

### Case Study: National Financial Services Brokerage

- \$5M RFP issued by Brokerage firm with 161 sites looking for nationwide FRS network
- Verizon ESG customer
- IXC was incumbent FRS provider
- Three IXCs provided customer specific contract terms and aggressive local and LD FRS pricing
- Verizon analysis proved our FCC #20 tariff rates for local FRS access was not competitive and chose to bid only on the LD FRS network
- Competitor's total FRS solution was 15-20 % lower than Verizon tariff local FRS rates combined with our discounted LD rates



# Pricing Flexibility for Fast Packet Services

## Regulatory Obstacles to Effective Competition (Cont.)

### Case Study: Global Financial Services Brokerage

- MD based Financial Services company issued RFP for FRS (DS1, DS3) for 200 sites across the country
- IXC was incumbent FRS provider
- Verizon analysis proved our FCC #20 tariff rates for local FRS access were 30% higher than the incumbent prices
- The price of the Verizon total FRS solution was deemed non-competitive even with deep discounts on the LD FRS components
- Total “lost” opportunity was \$2.7M



# Pricing Flexibility for Fast Packet Services

## Regulatory Obstacles to Effective Competition (Cont.)

### Case Study: Large National Bank

- \$8M RFP issued by large National Bank for 1400 branch locations of which 95% within Verizon LEC footprint
- Customer was looking to select two network providers in order to satisfy requirement for network diversity
- Verizon forced to use standard FCC #20 pricing for intraLATA FRS access and deeply discounted interLATA PVC's provided by 272 affiliate VSSI
- Customer feedback indicated Verizon overall pricing was significantly higher (20%-40%) than all of quotes provided by the IXC's
- Internal Verizon post-bid analysis re-priced opportunity using the standard term/volume discounts available in State jurisdictions and found Verizon would have been able to meet competition pricing



# Pricing Flexibility for Fast Packet Services Summary

- Enterprise customers are sophisticated and accustomed to customized solutions independent of regulatory boundary considerations (e.g. LATA).
  - Enterprise Networks are not “LATA-bound”
  - Enterprise customers seeking single source provider for all Fast Packet
- IXC’s are the Dominant Players and have flexibility in negotiating pricing & terms.
  - IXC’s avail themselves to the special access price flexibility relief to gain access to end-user
- Current regulatory rules handcuff effective competition by limiting Verizon’s flexibility in negotiating prices and terms
- Market forces will drive competition
- Competition will result in numerous end-user benefits
  - Market-based pricing
  - Stronger Service Level Agreements
  - New Product Development