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December 8, 2004

Ex Parte

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW – Portals
Washington, DC 20554

Re: ***Unbundled Access to Network Elements*, WC Docket No. 04-313; *Section 251 Unbundling Obligations for Incumbent Local Exchange Carriers*, CC Docket No. 01-338**

Dear Ms. Dortch:

Virginia Ruesterholz, Verizon's President-Wholesale Markets, sent the attached letter today to Wireline Competition Bureau Chief Jeffrey Carlisle to describe the nature of Verizon's wholesale business and the competitive environment in which we operate.

Please include the attached letter in the record of these proceedings.

Sincerely,

Attachment

c: Jeff Carlisle
Michelle Carey
Tom Navin
Pam Arluk
Gail Cohen
Ian Dillner
Russ Hanser
Marcus Maher
Jeremy Miller
Carol Simpson
Tim Stelzig

Virginia P. Ruesterholz
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December 8, 2004

Mr. Jeffrey Carlisle
Chief - Wireline Competition Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Unbundled Access to Network Elements*, WC Docket No. 04-313 and *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, CC Docket No. 01-338

Dear Mr. Carlisle:

The issues pending before the Commission in its review of the unbundled network element ("UNE") rules are critically important to the long-term development of a competitive telecommunications industry. As President of Verizon's Wholesale Markets Group, I am responsible for all aspects of Verizon's wholesale access service delivery, including the provision of wholesale, high-capacity special access services and facilities to our carrier customers. The purpose of this letter is to describe the nature of Verizon's wholesale business and the competitive environment in which we operate.

As the President of Verizon's Wholesale Markets Group, my objective is to build a viable wholesale business. Critical to the development of our wholesale business is the ability to establish mutually beneficial commercial relationships with our carrier customers, and I and other members of Verizon's wholesale team have worked hard to do just that. As a result, today, the overwhelming majority of Verizon's high-capacity special access service – more than 80 percent overall and roughly 85 percent for DS1 service – is in fact provided on a wholesale basis to our carrier customers.[1] And where carriers choose to use Verizon's high-capacity services, they overwhelmingly do so by purchasing them in the form of special access rather than as unbundled network elements – as much as 91 percent of their DS1 loops and 98 percent of their DS3 loops as special access compared to only 9 percent of their DS1 and 2 percent of their DS3 loops purchased as UNEs.[2]

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1 Verses/Lataille/Jordan Reney Declaration, Exhibit 9.

2 *See* Verses/Lataille/Jordan/Reney Decl. ¶ 59 & Exh. 10A, 10C, attached to Verizon Comments at Attachment B (corrected by Errata filed Dec. 7, 2004).

The market for high-capacity access service in which we have built this wholesale business is extremely competitive. It was one of the first markets other carriers entered, beginning with the emergence of the competitive access providers ("CAPs") in New York City in the late 1980s and 1990s. Having established a stronghold there and in other central urban districts, these alternative access providers expanded outward from there to other geographic markets. Today, these providers and others have deployed facilities wherever concentrations of demand for high-capacity services exist.[3]

Given this very competitive environment, the market works as one might expect. Business customers, and particularly large enterprise customers who require high-capacity telecommunications services, issue Requests for Proposals ("RFPs") to telecommunications providers that provide high-capacity services on a retail basis. In many instances, Verizon's Enterprise Services Group, Verizon's retail arm, may be among the bidders vying to provide the services requested. Once the business customer chooses a retail provider from among the bidders, there frequently is another round of competition, this time at the wholesale level.

While the carrier selected to provide retail service to the customer might provide some of the services over its own facilities, they also often solicit bids from wholesale providers to obtain the high-capacity facilities they need to serve the customer. At that point, Verizon's Wholesale Markets Group will compete for that wholesale business and try to win at least some part it. In those instances, there are actually two levels of competition and providers – first, the carrier(s) providing the retail service to the customer and the competition for that retail business and second, the carrier(s) providing the wholesale service to the retail carrier provider and the competition for that wholesale business.

The market, in fact, is so competitive now that sometimes, there are actually three levels of providers and competition: the retail provider might be a systems aggregator, which will solicit competitive bids from various telecommunications carriers. The carrier that wins that bid then often will have a competition among wholesale providers to provide some part of the facilities that carrier needs to serve the retail aggregator. For example, this happened recently with a large banking customer. An aggregator won the bid to provide retail services to the bank; several secondary carriers won a bid put out by the aggregator to provide the facilities the aggregator needed; and Verizon Wholesale provided some of the facilities those secondary carriers needed to fulfill their proposal with the aggregator.

Given this environment, my wholesale carrier customers have made clear that they have other alternatives for the high-capacity facilities they need to serve their customers. Many of them already have extensive networks of their own that they can use and are willing to build the facilities they need themselves if they cannot obtain them at prices that make it more economic for them to lease rather than to build. Others point to the availability of access facilities from other wholesale providers. As a result, my customers require that I offer competitive pricing if I want their business. Even then, many customers plainly tell me that I will get only part of their business, and will get more or less of it depending on the prices I can offer.

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[3] Verizon Comments 41-65, Tab H; Verses/Lataille/Jordan/Reney Declaration ¶¶ 9-30.

Verizon's Wholesale Markets Group has worked hard to retain the business of our carrier customers. We have worked closely with our carrier customers to design innovative pricing options that provide attractive pricing in order to win or retain their business. One recent innovation, for example, is the total billed revenue plans that have been negotiated. These plans provide discounts to our carrier customers who spend a certain amount of money with us for special access services. Because these plans take into account the total amount customers spend for special access services and are not product or service specific, they allow our carrier customers more flexibility in choosing the special access services they need without worrying about whether the specific product or service they are buying is discounted.

We also offer our carrier customers a variety of volume and term discount plans that provide deep discounts off our tariffed special access base prices. One type of plan is strictly a term of years pricing plan that is circuit specific. Under these plans, the carrier commits to maintain the service with Verizon for a term of years; the longer the term, the greater the discount. These plans give the carrier the flexibility to place some circuits under plans with a shorter-term and other circuits under a plan with a longer-term depending on the carrier's needs and plans for future self-deployment.[4]

Contrary to some claims that these plans "lock" carriers in, these plans typically provide that carriers may terminate the plan at any time by paying the lesser of 1) the difference between rates for the selected term plan and the rates for the longest term plan that the carrier could have satisfied or 2) a percentage of the monthly charges for the un-expired portion of the term. For example, under option 1 above, if the customer signed up for a 7-year term plan and only kept the circuit for 3 years, it would only be charged as if it had purchased a 3-year term plan. The termination charges, therefore, are not onerous and make the carrier no worse off than the carrier would have been had the carrier decided to enter a term or volume agreement for only the period it desired to purchase the circuits from Verizon.[5]

Another increasingly popular discount plan, particularly for carrier customers that are growing their business, is our volume and term commitment plan. These plans require a one-year minimum service period but allow a carrier to move circuits in and out of the plans as they choose. Using this type of plan, a carrier can reduce the number of special access circuits the carrier has in one area and move those circuits to its own or alternative provider facilities, while adding special access circuits in another area as it begins to build a customer base there in advance of deploying facilities. The carrier pays no termination liability for moving these circuits as long as it maintains the agreed-upon minimum volume level.

Because of these efforts, my carrier customers generally report that they are pleased with the business relationships we have developed and that the commercial arrangements we have negotiated allow them to grow their business and succeed in the market. Indeed, as noted above, carriers who use Verizon's network, either in lieu of deploying their own facilities or to fill in the gaps in their existing networks, use

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4 Lataille/Jordan/Slattery Decl. at ¶ 21.

5 *Id.* at ¶ 24-25.

predominately Verizon's special access service, not UNEs, to serve their customers.[6] They do so, they say, for at least two reasons: one because they receive premium service from a customer care representative who helps them manage their facilities needs and two, because they view the availability of below-cost UNEs as a short-term phenomenon that does not provide a sustainable business plan over the long term.

And while some carrier customers have expressed concern that the prices they pay for special access might increase were UNEs to be eliminated, that is not a real risk given the competitive state of the market for high-capacity facilities. These concerns, moreover, can be directly addressed by means less damaging to this market than the continued availability of UNEs at below cost rates. In fact, we are already in discussions with our carrier customers to negotiate provisions in their agreements to protect against the possibility of special access rate increases and to provide further assurance that our customers will continue to receive competitive prices. In short, the wholesale market for high-capacity services is working, so I am concerned about the effects that the unbundling rules currently under consideration may have on the wholesale market in general and Verizon's wholesale business in particular.

If unbundled high-capacity loops and transport become widely available and available indefinitely, what is currently a viable, competitive wholesale market for high-capacity facilities will be undermined. Verizon's carrier customers, who currently use predominately special access service to serve their customers, might themselves be forced to shift to lower cost UNEs to compete with other carriers who will be able to obtain equivalent high-capacity facilities at below cost rates. Rather than building a viable wholesale business based on negotiated, mutually beneficial commercial arrangements, Verizon's Wholesale Markets Group will merely take orders for UNEs at TELRIC rates and become a drain, because UNE rates do not even cover costs much less allow us to earn a profit.

In addition, widespread availability of high-capacity UNE loops and transport also will create the same problems that UNE-P created in the mass market. Carriers will become increasingly dependant on the subsidized UNE rates. This shift in demand will undermine continued facilities deployment in at least two respects. First, carriers will no longer build their own networks to self-provision high-capacity facilities because, at UNE rates, they will be able to lease them for less than what it would cost even the most efficient carrier to build them. The availability of UNEs for high-capacity loops and transport, thus, will undermine the economic build/buy choice carriers currently have.

Second, carriers deploying network facilities and offering them to other carriers on a wholesale basis also will have little reason to continue to build as they find that they cannot recoup the costs of facilities deployment if, in order to compete, they have to offer them at rates comparable to what Verizon and other RBOCs will be required to offer. As demand shifts from alternative provider facilities to lower cost UNEs, the only wholesale providers of high-capacity facilities will be Verizon and the other RBOCs.

In sum, our concern is that imposing broad unbundling requirements on high-capacity facilities will undermine a competitive market and viable wholesale business by

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[6] Verizon Comments 59-62; Verses/Lataille/Jordan/Reney Decl. ¶¶ 51-59, Exhibit 10A-10D, attached to Verizon Comments at Attachment B (corrected by Errata filed Dec. 7, 2004).

encouraging carriers to depend increasingly on below cost TELRIC rates rather than purchase competitive special access services or deploy their own facilities.

Yours truly,

Virginia Ruesterholz

Virginia P. Ruesterholz
President – Wholesale Markets