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May 26, 2005

Ex Parte – Via Electronic Filing

Ms. Marlene Dortch
Secretary
Federal Communications Commission
The Portals
445 12th Street, S.W.
Washington, DC 20554

Re: WC Docket Nos. 05-65 and 05-75

Dear Ms. Dortch:

On May 25, 2005, Cathleen Wasilewski of SAVVIS, Larry Strickling of Broadwing, and I met with Scott Bergmann, Commissioner Adelstein's legal advisor for wireline issues; Mr. Strickling and I then met with Michelle Carey, Chairman Martin's legal advisor for wireline issues. We discussed the issues raised in our comments in these proceedings. We emphasized that, although the special access market is concentrated, it will become more concentrated if these mergers are approved as proposed. In that connection, we gave Ms. Carey the attached article from the Wall Street Journal discussing the effects of the mergers. We also urged Ms. Carey to make sure that the applicants tell the Commission what their share of the Internet market will be once they convert voice traffic to voice over Internet protocol.

Sincerely,

/s/

Christopher J. Wright
Counsel to Broadwing Communications LLC and SAVVIS Communications, Inc.

cc (by e-mail):
Michelle Carey
Scott Bergmann

attachment

Phone Consolidation May Cost
Corporate Clients Clout

By JESSE DRUCKER and CHRISTOPHER RHOADS Staff Reporters of THE WALL STREET JOURNAL May 4, 2005; Page B1

The past 15 months have rearranged the nation's telecom landscape. Now, the real change begins.

The recent blur of consolidation across the industry reflects the technological and regulatory forces that are transforming the ways people communicate, executives and industry experts say.

After a total of more than $100 billion in deal making, Verizon Communications Inc. and SBC Communications Inc. have emerged as two giants set to dominate the industry. The companies will control everything from the nation's two largest cellphone providers to the copper lines connecting every home and business in their vast service territories.

Now that Verizon has won its fight to acquire MCI Inc. on the heels of SBC's pending purchase of AT&T Corp., the two giants will be able to control a phone call from the time it is placed in Chicago to the time it is completed in Los Angeles or Tokyo. Together, they will control an overwhelming portion of the massive business market for data and phone services, leaving behind competitors such as Qwest Communications International Inc. and BellSouth Corp., which failed to join the merger frenzy.

Every American consumer could be affected by the mergers. (See related article.) But analysts say that business customers could face the most change, with fewer providers leaving them with less leverage to secure discounts.

"I think the pricing for the consumer is going to continue to be very competitive," says Richard Notebaert, chief executive of Qwest, which on
Monday gave up its fight to acquire MCI. (See related article.) "The situation where there ought to be some concern is in the business and government market. There, you just don't have a whole bunch of us, and you're going down to a creation of concentration between SBC and Verizon."

Before the acquisition deals for AT&T and MCI, businesses collectively received about 50% of their telecom services from their various top-two providers, according to a recent study by Control Point Solutions, a Rutherford, N.J., firm that advises companies on telecom spending. In the wake of the two acquisitions, businesses will receive 87% of their services from their top-two providers, the Control Point study says.

That additional concentration could mean a significant bump in costs for
businesses, the report concludes. In the past decades, businesses have grown accustomed to negotiating discounts of 25% to 40% on their long-distance services, according to the report. The local telephone market, controlled by the regional phones companies, has been far less

competitive, offering much smaller discounts to businesses.

"The big corporate customer has become used to an annual decrease in rates," says Nick Wray, a Control Point Solutions vice president. "They should not expect this anymore." Mr. Wray suggests the impact on rates will vary by industry and location. Oil companies in parts of Texas, where Cingular Wireless, SBC and AT&T are the dominant companies -- and are now about to be joined under one roof -- could be adversely affected.

In the business market, cable doesn't exist as a real competitor for many phone providers because the nation's cable service was built to offer television service to homes. A number of cable companies are trying to make a push to sell phone services to small and midsize businesses, but the cable industry isn't expected to be a major force in the business market anytime soon.

Cox Communications Inc. has been most aggressive in telecom-service sales to businesses, collecting close to $400 million in revenue from corporate clients last year. But even Cox is limited because its cable systems don't reach all of the commercial areas in its franchises -- and the company is reluctant to spend capital to reach certain areas without any guarantee that it will find customers.

For consumers, meanwhile, a single local phone company will still dominate most areas. Cable companies are rapidly entering the telephone business, but they currently offer telephone service to only about 25% of the country's households, says Jason Bazinet, a cable analyst at Citigroup Smith Barney. However, he projects that number will rise to 40% by the end of the year.

Local phone companies are also likely to face increasing competition from the explosion in wireless calling. In December, Sprint Corp. and Nextel Communications Inc. announced a $35 billion deal to create a mostly wireless giant. The new company is likely to explore low-cost wireless technologies like Wi-Fi connections to compete directly against traditional phone lines.

Verizon, for its part, has said higher prices are unlikely in an environment where local phone business is eroding as a result of competition and a slew of new technologies like Internet calling. "The battle didn't go away because we're buying" the long-distance companies, says Verizon spokesman Peter Thonis. "The battle went away because technology made stand-alone long-distance business much less relevant."

Both Verizon and SBC bought their long-distance rivals for similar reasons: access to corporate customers to whom they can sell discounted packages of telecom services. AT&T and MCI's business has long been eroding as consumers use more cellphones and email.

A decision last year by the Federal Communications Commission to effectively roll back rules that required local companies to offer their networks to competitors at regulated rates made it difficult for MCI and AT&T to offer competitive local phone service, making their eventual sale all but inevitable.

SBC and Verizon had the ability to buy the networks and high-paying customers for relatively cheap prices. Cutting costs through layoffs means the two companies will get big -- albeit rapidly declining -- revenue streams for comparatively little additional cost.

Some are concerned about the impact of the disappearance of AT&T, which for decades battled the Bells at every twist and turn, serving as a check to their market power. The Bells were originally created as local phone companies during the breakup of the former Ma Bell monopoly in 1984.

"What's particularly significant about these last two mergers is that they take by far the biggest players opposing the Bell companies off of the table in Washington," says Kevin Werbach, a professor of legal studies at the University of Pennsylvania's Wharton School. He worries that incumbent phone and cable companies could make it difficult for others to offer Internet calling over their networks.

Meanwhile, on the state level, phone and cable companies are lobbying for new laws to stop the spread of the increasingly popular technology known as Wi-Fi, as cities use wireless equipment to offer broadband connections.

Verizon's Mr. Thonis says that phone companies will be lobbying to loosen longstanding regulations on many aspects of their business. For example, many industry lobbyists want to seek a change in laws requiring approval from state regulators to raise rates. Cable companies, by comparison, face looser regulations on many parts of their business. "The new battle has to do with a level playing field with every other competitive technology," says Mr. Thonis.

Yet, changes in technology mean that there will likely be many more companies competing against the Bells than just cable operators. The integration of voice and data on digital networks and the arrival of Internet calling has attracted a slew of new players to the phone industry, such as Microsoft Corp., Sony Corp., Time Warner Inc.'s America Online and EarthLink Inc. Their arrival hints at the profound changes that lie ahead, executives say.

After the recent cycle of boom, then bust, and now consolidation, the industry has become more viable and suddenly interesting for a wide array of companies, says Raul Katz, CEO of Adventis, a Boston telecom consulting firm. "We are seeing companies from media, entertainment, hardware and software now attracted to telecom," he says. The next phase "will be new-entrant activity."

These technological changes could help spur even more consolidation. "When technology allows you to compete where you couldn't before, and offer a product at 50% less, that moves markets and consumers," says Scott Cleland, chief executive of Precursor, a Washington investment research firm, "that changes the marketplace."

--Peter Grant contributed to this article.

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