

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Verizon Communications Inc. and)	
)	WC Docket No. 05-75
MCI, Inc.)	
)	
Applications for Approval of)	
Transfer of Control)	

**RESPONSE OF VERIZON
TO THE COMMISSION'S MAY 5, 2005 INITIAL
INFORMATION AND DOCUMENT REQUEST**

May 26, 2005

REDACTED – FOR PUBLIC INSPECTION

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INITIAL INFORMATION AND DOCUMENT REQUEST**

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SPEC.	NARRATIVE	EXHIBITS	DOCUMENTS	
			Claire Beth Nogay	VZFCC000001067
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			Scott Pierce	VZFCC000001083
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**VERIZON'S RESPONSE TO
INITIAL INFORMATION AND DOCUMENT REQUEST**

Verizon provides the following narrative answers in response to the letter dated May 5, 2005 from Thomas Navin, Acting Chief, Wireline Competition Bureau of the Commission and the attached Initial Information and Document Request also dated May 5, 2005. The narrative answers respond to each specification applicable to Verizon, and provide requested data both within the applicable text and as identified exhibits. In addition, Verizon is providing responsive documents. As noted where applicable in the narrative, Verizon's submission reflects agreements with Commission staff as to the scope and meaning of individual specifications. Verizon has provided responsive, non-privileged information, data, and documents. By agreement with Commission staff, Verizon is providing information that is kept in the ordinary course of business, and in the form in which it is normally kept. In a number of instances, in an effort to assist the Commission in its review, Verizon is also providing additional information it has been able to glean from public sources. This is especially true with respect to information about competitors; the best source of such information is the competitors themselves but they have failed to produce such information in this proceeding and Verizon therefore has attempted to compile information from publicly available sources in an effort to be of assistance. In addition, where the Initial Information and Document Request requests documents from custodians who are also custodians of documents requested by the Department of Justice, Verizon has use the same cut-off date for documents as it did for the Department of Justice. As requested, Verizon has also provided a master index of the specifications and responses.

In light of the information, data, and documents sought by the Commission, much of the narrative, appendices, and submitted documents contain material that is extremely sensitive, from a commercial, competitive and financial perspective, that Verizon would not, in the normal course of its business, reveal to the public or its competitors. Where appropriate, therefore, such material is being submitted on a confidential basis pursuant to the First Protective Order and Second Protective Order in this proceeding.¹ The confidential, unredacted submission is marked “*CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN WC DOCKET NO. 05-75 before the Federal Communications Commission*” and “*HIGHLY CONFIDENTIAL INFORMATION – SUBJECT TO PROTECTIVE ORDER IN WC DOCKET NO. 05-75 before the Federal Communications Commission – Copying Prohibited [in part].*” A version of the narrative answers redacting the confidential information and available to the public is being filed electronically in the Commission’s ECFS system.

Consistent with the Protective Orders, Verizon expects prompt notification of any “Acknowledgment of Confidentiality” submitted by any person seeking access to the confidential, unredacted material. Verizon also requests the return of all confidential material at the conclusion of this proceeding.

¹ *Applications of Verizon Communications Inc. & MCI, Inc.*, WC Dkt No. 05-75, Order Adopting Protective Order, DA 05-647 (rel. Mar. 10, 2005); Order Adopting Second Protective Order, DA 05-1538 (rel. May 25, 2005).

A. Enterprise Services

1. On pages 19 and 20 of the Public Interest Statement, Verizon states that the Commission should not distinguish between large and medium business customers because they “share many relevant characteristics” – they “tend to be served under individual contracts and marketed through direct sales contracts” and both “often demand advanced . . . features” and “greater volumes of minutes.” (Citations omitted.) In order to better understand the characteristics of enterprise customers, provide the following:

- a. Define “enterprise market” and “mass market,” as well as “small business customer,” “medium-sized business customer,” and “large business customer.” Explain the specific characteristics that distinguish each class of business customers from the others (e.g., revenue size; employee size; telecom needs; other criteria).

RESPONSE TO SPECIFICATION 1.a:

As explained in the Public Interest Statement and accompanying declarations, the term “enterprise market” refers to the “larger business market” consisting of “medium-sized and large business customers” that the Commission has defined as a “relevant product market” in previous merger reviews.² Verizon also considers the federal government, large state and local governments, and large institutional customers such as universities, to be within the same relevant market as medium-sized and large business customers.³ The term “mass market” refers to a separate relevant market that the Commission has identified in previous merger reviews, consisting of “residential consumers and small business [customers].”⁴

² E.g., Memorandum Opinion and Order, *Application of GTE Corp. and Bell Atlantic Corp. for Consent To Transfer Control*, 15 FCC Rcd 14032, ¶ 102 (2000) (“*Bell Atlantic/GTE Order*”); Memorandum Opinion and Order, *Application of WorldCom, Inc. and MCI Communications Corp. for Transfer of Control*, 13 FCC Rcd 18025, ¶ 24 (1998) (“*MCI/WorldCom Order*”); see also Public Interest Statement at 19-20; Bruno/Murphy Decl. ¶ 6; McMurtrie Decl. ¶ 3.

³ See Public Interest Statement at 19; Bruno/Murphy Decl. ¶¶ 6, 13; McMurtrie Decl. ¶ 3.

⁴ *Bell Atlantic/GTE Order* ¶ 102; *MCI/WorldCom Order* ¶ 24.

Business customers occupy a continuum, and any attempt to group such customers by size is necessarily arbitrary. To the extent it is necessary to define “medium-sized business customer,” “large business customer,” and “small business customer,” however, these categories are most logically distinguished based on the telecommunications needs of these types of customers.

As the Commission has recognized, both large and medium-sized businesses “tend to be served under individual contracts and marketed through direct sales contacts,” rather than through mass-market techniques such as regional advertising and telemarketing.⁵ Both tend to demand “advanced . . . features” and services, and often require that these features and services be customized to their needs.⁶ Thus, these customers are rarely able to satisfy their telecommunications needs exclusively with standardized products and services purchased off-the-shelf and instead require a higher degree of individualized attention. Both large and medium-sized business customers also tend to generate relatively large volumes of traffic and revenues in comparison to mass-market customers.

Consistent with the Commission’s previous findings, the principal differences between large and medium-sized businesses are ones of degree rather than kind. The telecommunications needs of large and medium-sized businesses may vary based on how many employees they have, the nature of their line(s) of business, their geographic location(s), or other factors. With respect to each of these criteria, however, there is no specific threshold that defines a large or medium-

⁵ *Bell Atlantic/GTE Order* ¶ 102 n.253.

⁶ *MCI/WorldCom Order* ¶ 24.

sized business, or the difference between the two. The term “large enterprise business” is, however, sometimes used to refer specifically to Fortune 1000 companies. Wall Street analysts have previously used this definition.⁷

Verizon considers the federal government, large state and local governments, and large institutional customers to be within the same product market as medium-sized and large business customers, because these customers have similar telecommunications needs.⁸ Like large commercial enterprises, these government and institutional customers generally put out requests for proposals (“RFPs”) for large communications services contracts that may cover multiple locations. In addition, these customers rely heavily on a wide variety of sophisticated services to perform mission-critical applications, and often purchase many of these services in bundles.

Verizon’s internal sales and marketing structure is generally consistent with the distinctions described above. Verizon’s Enterprise Services Group (“ESG”) serves the needs of both large and medium-sized commercial and institutional customers that generally spend more than \$100,000 annually with Verizon.⁹ ESG further divides its customers into three different tiers based on these customers’ spending with Verizon.¹⁰

Verizon’s Retail Markets group (which is sometimes referred to within Verizon as the Business Solutions Group or “BSG”) has primary responsibility for serving business customers

⁷ See, e.g., R. Dale Lynch & Blake Bath, Lehman Brothers, *Enterprise Telecom Services; A Comeback Begins* at 3, Fig. 22 (Nov. 11, 2003) (“*Enterprise Telecom Services Report*”) (large enterprise has “Fortune 1,000 focus”); see also Bruno/Murphy Decl. ¶ 6; McMurtrie Decl. ¶ 3.

⁸ See Bruno/Murphy Decl. ¶¶ 6-13.

⁹ See Bruno et al. Reply Decl. ¶ 25.

¹⁰ See *id.* ¶ 26.

that generally spend less than \$100,000 per year with Verizon. For operational purposes, Retail Markets distinguishes between “premium” or “managed” business accounts and non-premium, unmanaged accounts that are referred to within Verizon as “national” accounts. Three categories of customers generally qualify as premium or managed accounts: (1) customers located in “Tier 1” MSAs¹¹ that generate **[Begin Confidential]** **[End Confidential]** or more in total billed ILEC revenues per year (an amount that generally corresponds to customers that purchase more than seven telephone lines); (2) customers located in “Tier 2” MSAs that generate **[Begin Confidential]** **[End Confidential]** or more in total billed ILEC revenues per year (an amount that generally corresponds to customers that purchase 15 or more telephone lines); and (3) customers located in “Tier 3” MSAs that generate **[Begin Confidential]** **[End Confidential]** or more in total billed ILEC revenues per year (an amount that generally corresponds to customers that purchase 28 or more telephone lines).¹² The name “BSG” is also used within Verizon to refer to just the narrower organization within Retail Markets that serves “premium” or “managed” business accounts. For purposes of these specifications, the phrase “Retail Markets” will be used to describe the organization that serves all business customers other than ESG customers. The term “BSG” will be used only to describe the organization that serves premium or managed accounts.

¹¹ A list of Tier 1 and Tier 2 MSAs is provided as Exhibit 1.A; all other MSAs are categorized as Tier 3. The MSAs in Exhibit 1.A do not match the official MSAs as defined by the U.S. Census Bureau. Although Verizon uses this unofficial list for purposes of identifying premium customers within Retail Markets, Verizon has used only the official list for purposes of responding to these specifications.

¹² Once a customer qualifies as premium it will generally remain so, even if it falls below these thresholds. Conversely, customers that did not qualify as premium but now meet these thresholds are converted to premium.

The telecommunications needs of small-business customers may resemble either those of medium-sized businesses or those of mass-market customers. This will often depend on how small the business is. There is no specific revenue, employee, or other threshold that automatically determines whether a small business customer will be more like a medium-sized business or a mass-market customer. Verizon serves all small business customers through its Retail Markets group, which also serves residential customers.¹³ Small business customers that obtain seven or fewer telephone lines are generally treated as a “national” (*i.e.*, unmanaged) account, which is the same designation used for residential customers.

¹³ See Bruno et al. Reply Decl. ¶ 25.

- b. *Explain whether there are similar distinctions among classes of wholesale customers based on particular characteristics (e.g., size; type of wholesale services; other criteria). If so, define those classes of wholesale customers.*

RESPONSE TO SPECIFICATION 1.b:

Verizon does not distinguish between different classes of wholesale customers internally, and is not aware of any particular characteristics of such customers that would support relevant product market distinctions. To the contrary, the wholesale products and services that Verizon supplies are purchased by a wide range of wholesale customers that vary greatly in size, and there does not appear to be any correlation between the type or size of wholesale customer and the types of services that it purchases. For example, both small and large interexchange carriers, wireless providers, and competitive local exchange carriers purchase dedicated high-capacity circuits from Verizon.

Verizon has two different wholesale divisions – known as “Wholesale Carrier” and “Wholesale Local” – but they are distinguished by the types of products and services they provide, not the types of customers they serve.¹⁴ In fact, the customers of both divisions overlap to a considerable extent. Wholesale Local is responsible for providing Unbundled Network Elements pursuant to 47 U.S.C. § 251(c)(3) and Resale services pursuant to § 251(c)(4). Wholesale Carrier is responsible for providing other wholesale products such as special access and switched access.

¹⁴ Wholesale Local is also sometimes referred to within Verizon as Telecom Industry Services or “TIS.”

- c. *Separately for MCI and Verizon, list the number of your customers to which you provided \$5 million or more in services during 2004 and the percentage of your revenues accounted for by these customers, and the number of your customers to which you provided \$1 million - \$4,999,999 in services during 2004 and the percentage of your revenues accounted for by these customers.*

RESPONSE TO SPECIFICATION 1.c:

During 2004, Verizon provided \$5 million or more in services to a total of **[Begin Confidential]** **[End Confidential]** retail customers. These customers – all of whom were served through ESG – accounted for approximately **[Begin Confidential]** **[End Confidential]** in revenues.

During 2004, Verizon provided \$1 million - \$4,999,999 in services to a total of **[Begin Confidential]** **[End Confidential]** retail customers. These customers – all of whom were served through ESG – accounted for approximately **[Begin Confidential]** **[End Confidential]** in revenues.

The percentage of Verizon's revenues accounted for by these customers depends on the base of revenues used in the denominator of such calculation. During 2004, ESG's total revenues were approximately **[Begin Confidential]** **[End Confidential]**; Verizon's total domestic wireline telecom revenues were approximately \$38 billion; and total Verizon revenues were approximately \$71 billion. The customers to whom Verizon provided \$5 million or more in services represent approximately **[Begin Confidential]** **[End Confidential]** of ESG revenues, approximately **[Begin Confidential]** **[End Confidential]** of total domestic wireline telecom revenues, and approximately **[Begin Confidential]** **[End Confidential]** of total Verizon revenues. The customers to

whom Verizon provided \$1 million - \$4,999,999 in services represent approximately **[Begin Confidential]** **[End Confidential]** of ESG revenues, approximately **[Begin Confidential]** **[End Confidential]** of total domestic wireline telecom revenues, and approximately **[Begin Confidential]** **[End Confidential]** of total Verizon revenues.

Wholesale Customers

During 2004, Verizon provided \$5 million or more in services to a total of **[Begin Confidential]** **[End Confidential]** wholesale customers. These customers accounted for approximately **[Begin Confidential]** **[End Confidential]** in revenues. This represents approximately **[Begin Confidential]** **[End Confidential]** of Verizon's total wholesale revenues for 2004.

Verizon does not maintain data in the ordinary course of business that would enable it to readily determine the number of wholesale customers to which Verizon provided \$1 million - \$4,999,999 in services during 2004, and would have to conduct a special study in order to obtain this information. These customers are likely to account for the bulk of the remaining **[Begin Confidential]** **[End Confidential]** of Verizon's total wholesale revenues not accounted for by wholesale customers to which Verizon provides \$5 million or more in services.

2. *The Public Interest Statement, at page 22, identifies types of domestic services that can be provided to various types of enterprise and wholesale customers, and these services can be generalized as follows: (1) local voice; (2) local data; (3) interexchange and international voice; (4) interexchange and international data; (5) converged voice and data; (6) systems integration/managed services; and (7) equipment (including, but not limited to, value-added resellers). The application appears to claim at page 24 of the Public Interest Statement that providers of these services (IXCs, international carriers, competitive LECs, cable companies, equipment providers, value-added resellers, and systems integrators and IP applications providers) are all competitive alternatives for business and wholesale customers to varying degrees, but does not clearly demonstrate which services are in the same product market.*

- a. *Using the Merger Guidelines methodology for defining product markets, explain which of these services are in the same product market as one another (i.e., which services are reasonable substitutes for one another in the eyes of customers).*

RESPONSE TO SPECIFICATION 2.a:

With respect to defining product markets, the Merger Guidelines focus on “demand substitution factors – i.e., possible consumer responses.”¹⁵ As the Commission has noted, “[d]emand substitutability identifies all of the products or services that consumers view as substitutes for each other, in response to changes in price.”¹⁶ Based on observable facts in the marketplace, many customers are using the services described in this specification interchangeably, and these services are accordingly viewed as reasonable substitutes for each other and within the same relevant market for many purposes.

¹⁵ U.S. Dep’t of Justice/Federal Trade Comm’n, *Non-Horizontal Merger Guidelines* § 1.0 (rev. 1997) (“Merger Guidelines”). Under § 1.11 of the Merger Guidelines, a product market consists of a “product or group of products such that a hypothetical profit-maximizing firm that was the only present and future seller of those products . . . likely would impose at least a ‘small but significant and nontransitory’ increase in price.” If such an increase would cause enough buyers to shift their purchases to a second product so as to make the price increase unprofitable, the two products are considered in the same product market.

¹⁶ Second Report and Order, *Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC’s Local Exchange Area*, 12 FCC Rcd 15756, ¶ 5 n.18 (1997) (“*LEC Classification Order*”).

As explained in the Public Interest Statement, as a result of profound changes in technology, the telecommunications industry is undergoing a dramatic transformation that has changed the way that customers communicate.¹⁷ The deployment of digital two-way, broadband capabilities, along with the growth of IP-based technologies, has resulted in “convergence” of once-separate services, networks, and providers. These developments have blurred the lines between traditional categories of telecommunications products and services, including the distinction between local and long distance, voice and data, and services and equipment. This transformation is firmly established for larger business customers, and taking hold rapidly with respect to medium-sized and smaller businesses as well.¹⁸

Larger business customers typically procure services by issuing Requests for Proposals (“RFPs”) that cover a wide range of products and services.¹⁹ These customers purchase all-distance packages of voice services from integrated providers in place of separate local and long distance voice services.²⁰ These customers also are using data services in place of traditional voice services. Many large enterprise and medium-sized business customers are now purchasing IP Virtual Private Network (“VPN”) and other converged services that are provided over Multi-Protocol Label Switching (“MPLS”) networks.²¹ These converged services can be used in place

¹⁷ See Public Interest Statement at 5-7.

¹⁸ See Public Interest Statement at 5-6; Bruno/Murphy Decl. ¶¶ 4, 15, 39, 48; McMurtrie Decl. ¶ 6.

¹⁹ See Bruno/Murphy Decl. ¶¶ 13, 62.

²⁰ See *id.* ¶ 12.

²¹ See *id.* ¶¶ 4, 16-18; see also M. Schoener, *et al.*, Gartner, *Fixed Public Network Services, United States, 2001-2007: Market Trends* at 13 (June 17, 2003) (IP VPN “will be the fastest growing managed service at a [compound annual growth rate] of more than 36 percent” and will “exceed all other managed services by 2007”).

of all local, interexchange, and international voice and data services.²² Business customers also use e-mail and instant messaging extensively, and much of this messaging substitutes for voice calls.²³

Larger business customers also are shifting between local, interexchange, and international voice and data services that are purchased off-the-shelf in standard configurations, and managed forms of these services that are customized to the user's needs. The rise of systems integrators and managed network providers is evidence of this.²⁴ Given that no one provider has ubiquitous network facilities, large enterprise customers typically must be served by aggregating the facilities of multiple providers. Systems integrators and managed network providers have proven they are capable of doing this as effectively as traditional wireline carriers.²⁵ To cite one recent example, the General Accounting Office issued an RFP for a \$1 billion contract involving the U.S. Department of Treasury, and among the companies responding were the contract incumbent, Northrop Grumman, as well as AT&T, Broadwing, Level 3, and Qwest, prompting one expert on government contracts to note that the contract "attracted both integrators and

²² See, e.g., Adam Quinton, *et al.*, Merrill Lynch, *US VoIP Update* at 18 (Nov. 26, 2003) ("IP products allow businesses to converge voice and data applications onto a single platform, resulting in cost efficiencies and powerful tools that can increase employee productivity."); David Barden, *et al.*, Banc of America Securities, *Tipping Dominoes: A Look at SBC/AT&T; Assessing Industry Consolidation* at 2 (Jan. 31, 2005) ("As companies collapse their voice networks using IP onto data networks, half the pipes provided by a Bell company disappear, so does the switched access, the prospect of retail LD revenue and even core local revenue.").

²³ See Hassett *et al.* Decl. ¶¶ 88-89.

²⁴ See Public Interest Statement at 27; Bruno/Murphy Decl. ¶¶ 18-19.

²⁵ See Bruno/Murphy Decl. ¶ 15; Lew/Lataille Decl. ¶¶ 8-10; McMurtrie Decl. ¶ 27.

carriers to the competition. We're seeing a clash of the titans where the integrators and carriers are going head to head."²⁶

Further, larger business customers also are shifting between services and equipment (as they have been doing for decades with the likes of PBX and Centrex), and this is expected to increase going forward.²⁷ Particularly with the rapid drop in the cost of computing power, large business customers are able to purchase customer premises equipment that provides the same functions that network providers historically performed, include intra- and inter-office voice and data communications. As a result, equipment suppliers such as Lucent, Nortel, Siemens, Cisco and others are competing to provide increasingly sophisticated on-site communications capability to replace services that were previously provided through the network.²⁸ Analysts also have recognized that voice services can be provided as a "free, collaborative software feature" on desktop PCs, in much the same way that Microsoft Outlook and IBM's Lotus Notes provide e-mail today.²⁹ Microsoft and IBM have already announced plans to integrate voice service into the office and e-mail applications suites used extensively by large enterprise customers.³⁰

²⁶ Howard Buskirk, *GAO Considers Rebidding Major Treasury Dept. Contract*, Communications Daily (Mar. 21, 2005) (quoting Warren Suss); *see also* Bruno et al. Reply Decl. ¶ 12.

²⁷ *See* Bruno/Murphy Decl. ¶ 25; Bruno et al. Reply Decl. ¶¶ 10, 44.

²⁸ *See* Bruno/Murphy Decl. ¶ 25; Bruno et al. Reply Decl. ¶¶ 10, 44.

²⁹ Bill Whyman, *et al.*, Precursor, *MSFT Enters Communications: Enterprise Voice Becoming a Free Software Feature* at 1 (Mar. 7, 2005) ("*Precursor Enterprise Voice Report*") ("Telecom investors should factor in an acceleration of the shift in voice from a monthly, priced-telecom service to a free, collaborative software feature. . . . Voice, embedded within the application, ceases to be a separate priced service, but is subordinated as merely another collaborative feature of the MSFT platform.").

³⁰ *See id.*

Although the Merger Guidelines focus on demand substitutability for purposes of market definition, they further provide that, “[i]n considering the likely reaction of buyers to a price increase,” it is relevant to consider various supply-side factors, such as “evidence that sellers base business decisions on the prospect of buyer substitution” and “the influence of downstream competition faced by buyers in their output markets.”³¹ Taking account of such evidence here provides further support for considering the various services in the specification within the same relevant market.

As Verizon demonstrated in the Public Interest Statement, competing providers of all kinds are now offering the full range of services that customers demand – local and long distance voice and data, as well as systems integration/managed services and equipment.³² Competing providers are rapidly deploying new IP-based networks and services along with other technologies to satisfy customer demand to abandon formerly separate services and networks and migrate to a single, more efficient technology. Given the complex dynamics of serving large enterprise customers, in many cases providers are competing with each other at some levels of providing service, while partnering at other levels, in order to provide the full-range of services that these customers demand. For example, even where a large enterprise customer’s bidding process results in the selection of a single, primary provider of service, that primary provider, in turn, normally entertains bids from companies to operate as secondary providers, filling in gaps

³¹ Merger Guidelines § 1.11.

³² See Public Interest Statement at 27-28; Bruno/Murphy Decl. ¶¶ 16-26; McMurtrie Decl. ¶¶ 24-27.

in the primary provider's network.³³ These secondary providers may, in turn, look to tertiary providers for network facilities.

These marketplace dynamics have opened the door for many new types of competitors in addition to traditional telecommunications firms. These new competitors include IP-based providers such as Savvis Communications, Broadwing, Level 3, and Global Crossing; systems integrators and managed services providers such as EDS, IBM, Accenture, Cap Gemini, Northrop Grumman, and General Dynamics; cable operators such as Time Warner, Cox, Cablevision, and Charter; equipment vendors and applications providers such as Nortel, Cisco, NextiraOne, Presidio, Sycom, Dimension Data, Shared Technologies, Savant, and Coleman Technologies; and major global telecommunications providers such as Equant, British Telecom, Deutsche Telekom, COLT, KPN Telecom, and NTT.³⁴ As discussed further in response to specification 3.d, both Verizon and independent analysts now view these firms as direct competitors of traditional telecommunications providers, which is relevant evidence, under the Merger Guidelines, that customers view them as competitive alternatives as well.

In sum, to the extent the Commission finds it necessary to define specific product markets, the services identified in this specification should all be considered as part of the same product market for purposes of analyzing this transaction, because customers are using these various services interchangeably. As a result of this competition, any attempt by the combined company to impose a "significant and nontransitory" increase in price would be unprofitable,

³³ See Bruno/Murphy Decl. ¶ 15; McMurtrie Decl. ¶ 27.

³⁴ See Bruno/Murphy Decl. ¶¶ 18-26; Bruno et al. Reply Decl. ¶ 11.

because customers could switch entirely to these alternative providers, give more business to these alternatives, or both. The Commission has held that it “need not delineate the boundaries of specific product markets, except where there is credible evidence suggesting that there is or could be a lack of competitive performance with respect to a particular service or group of services.”³⁵ The Applicants have demonstrated that there is fierce competition for the services offered to large enterprise and medium-sized business customers, regardless of whether the services at issue are looked at in the aggregate, or individually.³⁶ Under these circumstances, there is no need for the Commission to delineate specific product market boundaries, consistent with this precedent.

³⁵ *LEC Classification Order* ¶ 40.

³⁶ *See* Public Interest Statement at 19-34; Reply Comments at 16-40.

3. *The Public Interest Statement, at pages 24-34, cites a number of companies that the applicants contend compete for enterprise customers in various geographic regions with respect to some or all of the services listed in specification 2.*

a. *Provide the revenues and number of customers, separately for MCI and Verizon, separately for each type of service identified in specification 2, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA. Identify which geographic areas are within Verizon's region.*

RESPONSE TO SPECIFICATION 3.a:

Verizon does not maintain databases or other records in the ordinary course of business that would enable it to report revenues or customers for the specific services identified in specification 2, or for the specific classes of customers identified in response to specifications 1.a and 1.b. Verizon is nonetheless able to report revenues and customers in the manner set forth below, which reflects Verizon's best attempt at tracking these various customer and service categories.

Verizon also has attempted to report revenues by state and MSA. Verizon does not track any business revenues by MSA in the ordinary course of business, however, and accordingly used the following methodology to derive these estimated totals. Verizon determined the number of switched and special access lines in each wire center and then assigned business revenues to each wire center in direct proportion to these totals. Verizon then aggregated the wire-center totals to the MSA level.

Although Verizon was able to apply this methodology with respect to total revenues for certain categories of business customers, in no case was it able to obtain MSA-level detail for the specific services reported for these categories of customers. Verizon does not track revenues for

individual categories of services by MSA in the ordinary course of business, and the methodology that Verizon used to attribute aggregate business revenues to MSAs cannot reliably be used to attribute revenues for individual services to these MSAs. This is due to the fact that while there is a rough correlation between access lines and aggregate revenues, there is no direct relationship between access lines and the revenues for any specific service.

Business Customers

Exhibits 3.A.1 – 3.A.3, and 3.A.7 contain Verizon’s revenues and customers, quarterly for 2004 and 1Q05, separately for the categories of business customers, services, and geographic areas as explained below:

1. ***Enterprise Solutions Group.*** ESG has primary responsibility for business customers that spend more than \$100,000 per year with Verizon, and also is responsible for federal government customers as well as state and local government customers (regardless of their annual spend). For purposes of these specifications, Verizon has separately reported data for the federal government customers that are served by ESG, though Verizon is unable separately to report data for state and local government customers.

Verizon has provided total ESG revenues by state and by MSA. Verizon also has provided total ESG revenues by the following service categories: local voice, interexchange voice, local data, interexchange data, and CPE. This does not reflect how ESG actually tracks revenues or products, but instead represents Verizon’s attempt to assign ESG’s actual products and services into categories that match those requested by this specification. While these categorizations are an effort to comply with the specification request, they should not be

interpreted as a strict compartmentalization. For example, with the advent of IP technology, virtually any line can now be used for both voice and data services, and Verizon typically does not have information on how customers are using their lines. Exhibit 3.A.6 is the matrix that was used to assign the more than 250 specific services that Verizon provides into these five categories. Verizon has separately reported revenues for these service categories by state, but is unable to report them by MSA.

Verizon had a total of approximately **[Begin Confidential]** **[End Confidential]** ESG customers as of year-end 2004. Exhibit 3.A.7 provides ESG customers by state and MSA. For purposes of counting ESG customers, a company and its various subsidiaries were aggregated (based on Dun and Bradstreet data) and counted as a single entity, and the federal government was counted a single customer. Verizon has allocated these customers by state and MSA based on where they are headquartered, but in reality these customers have multiple dispersed locations. Verizon is unable to report ESG customers according to the service categories used to report revenues, or any other service categories. Verizon does not track ESG customers by service categories in the ordinary course of business.

2. ***Retail Markets.*** Verizon's Retail Markets group has primary responsibility for serving business customers that generally spend less than \$100,000 per year with Verizon. As described above in response to specification 1.a, Retail Markets divides business customers into "premium" or "managed" accounts on the one hand, and "national" or "unmanaged" accounts" on the other hand. For operational purposes, Verizon implemented the split between premium and national accounts approximately 18 months ago. Verizon has not, however, begun tracking

revenue or other data separately for these two types of accounts. Thus, while Verizon is able to report data separately for ESG customers, data for all business customers served by Retail Markets can be reported only in the aggregate. Beginning in May 2005, Verizon plans to track data separately for premium and national accounts. For purposes of these specifications, the phrase “Retail Markets” will be used to describe the organization that serves all business customers other than ESG customers. The term “BSG” will be used only to describe the organization that serves premium or managed accounts.

Verizon has provided total Retail Markets revenues in the same service categories used for ESG: local voice, interexchange voice, local data, interexchange data, and CPE. This does not reflect how Retail Markets actually tracks revenues or products, but instead represents Verizon’s attempt to assign Retail Markets’ actual products and services into categories that match those requested by this specification. Exhibit 3.A.6 is the matrix that was used to assign the more than 250 specific services that Verizon provides into these five categories. Verizon has separately reported revenues for these service categories by state, but is unable to report them by MSA.

Retail Markets also has responsibility for the provision of payphone services (referred to within Verizon as “Public”). For purposes of these specifications, Verizon has separated Retail Markets revenues attributable to payphones from other Retail Markets revenues.

Verizon has provided Retail Markets customers by state. These totals are estimates. Verizon’s Retail Markets does not maintain customer counts in the ordinary course of business. Indeed, there are different ways to count a distinct customer, particularly a business customer,

which often purchases telecommunications services for many distinct locations. Verizon derived the estimated totals here by calculating the average number of lines that its Retail Markets customers purchase in each state, and then dividing the total number of access lines for Retail Markets customers in that state by that average.

3. ***Verizon Online***. The only business revenues that are booked to Verizon Online involve high-speed Internet access service provided over DSL. Some or all of the business customers that it serves may also receive other services from ESG or Retail Markets. Verizon is unable to provide revenues or customers attributable to Verizon Online by MSA, and has therefore provided these totals by state.

4. ***Verizon Long Distance (“Bus-LD”)***. Verizon Long Distance provides long-distance services primarily to residential customers, but also provides that service to a segment of business customers. Some or all of the business customers that it serves may also receive other services from ESG or Retail Markets. For purposes of these specifications, the revenues attributed to Verizon Long Distance are separate from the revenues attributable to ESG or Retail Markets (*i.e.*, there is no double counting of these revenues), but the customer totals may overlap. Verizon is unable to provide revenues or customers attributable to Verizon Long Distance by MSA, and has therefore provided these totals by state.

5. ***Verizon Technologies and “Enterprise Nonregulated Entities” (“ENT-NR”)***.³⁷ These Verizon subsidiaries principally provide customer premises equipment, but also provide

³⁷ These entities are: Verizon Select Services Inc. (VSSI), Verizon Network Integration Corp. (VNIC), and Verizon Federal Inc. (VFI).

licenses, professional services, consulting services, and equipment testing to select business and government customers. Some or all of the business customers served by these affiliates may also receive services from ESG or Retail Markets. For purposes of these specifications, the revenues attributed to Verizon Technologies and the Enterprise Nonregulated Entities are separate from the revenues attributable to ESG or Retail Markets (*i.e.*, there is no double counting of these revenues), but the customer totals may overlap. Verizon is unable to provide MSA- or state-level detail for these affiliates, and has therefore provided only Verizon-wide totals.

Verizon has not separately reported revenues by relevant service category for Verizon Long Distance, Verizon Online, Verizon Technologies, or the Enterprise Nonregulated Entities. Insofar as business customers are concerned, Verizon tracks only one category of revenues for each of the entities in the normal course of business, which are reported in Exhibit 3.1. Business revenues for Verizon Long Distance are for long distance service; business revenues for Verizon Online are for high-speed Internet access provided over DSL; business revenues for Verizon Technologies and the Enterprise Nonregulated Entities are for ancillary services (47 C.F.R. § 32.5200).

Consistent with the discussion above, Exhibit 3.A.1 provides revenues for categories of business customers and services, quarterly for 2004 and 1Q05, by state. Exhibit 3.A.2 provides revenues for categories of business customers and services, quarterly for 2004 and 1Q05, by MSA. Exhibit 3.A.3 provides the number of Retail Markets customers by state.

Wholesale Customers

Exhibits 3.A.1, 3.A.4, and 3.A.5 contain Verizon's revenues and customers, quarterly for 2004 and 1Q05, for wholesale customers.

As explained in response to specification 1.b, Verizon does not recognize separate categories of wholesale customers. Verizon's two wholesale divisions – Wholesale Local and Wholesale Carrier – nonetheless provide different services, and Verizon has separately reported revenues and customers for these two divisions. These customer totals overlap in the sense that the same carriers are often customers of both Wholesale Local and Wholesale Carrier. Verizon has reported the number of Wholesale Local and Wholesale Carrier customers separately, by state and by MSA.

Verizon has separately reported wholesale revenues and customers for Wholesale Carrier and Wholesale Local by service categories. Wholesale Carrier revenues – which consist largely of various special access services – are grouped into interexchange voice and interexchange data. Wholesale Local revenues – which consist primarily of UNEs and resale – are grouped into local voice, interexchange voice, and local data. Exhibit 3.A.6 is the matrix that was used to assign the specific wholesale services that Verizon provides into these categories.

Consistent with the discussion above, Exhibit 3.A.1 provides revenues for categories of wholesale customers and services, quarterly for 2004 and 1Q05, by state. Verizon does not maintain wholesale revenues by MSA in the ordinary course of business. Exhibit 3.A.4 provides the number of Wholesale Local and Wholesale Carrier customers by state; Exhibit 3.A.5 provides these totals by MSA. In these exhibits, Wholesale Local is referred to as "TIS" or

Telecom Industry Services, and Verizon East and Verizon West refer to the former Bell Atlantic and former GTE service areas, respectively.

- b. *Provide the number of DS0 equivalent lines, separately for MCI and Verizon, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA. Identify which geographic areas are within Verizon's region.*

RESPONSE TO SPECIFICATION 3.b:

Business Customers

Exhibit 3.B.1 provides the number of DS0 equivalent lines that Verizon provides to ESG and Retail Markets customers, quarterly for 2004 and 1Q05, separately for each state in Verizon's franchise area.³⁸ Exhibit 3.B.2 provides these same data by MSA. Both exhibits provide DS0 equivalent lines separately for the different types of lines provided to these customers.

Although not requested, Verizon has also separately provided the number of lines on a systems (*i.e.*, by circuit size) rather than channelized basis – that is, without converting high-capacity lines to DS0 equivalents. These totals are contained in Exhibit 3.B.3 (by state) and Exhibit 3.B.4 (by MSA).

Verizon Online, Verizon Long Distance, Verizon Technologies, and the Enterprise Nonregulated Affiliates do not provide services to business customers that can be stated in DS0-equivalent lines.

³⁸ In a few discrete instances, circuits may be served out of a wire center in a different state from the location of the fiber. As noted in the spreadsheet, the way those circuits are tracked may vary by location, depending on whether the location is in the former Bell Atlantic or NYNEX regions (Verizon East) or the former GTE region (Verizon West). In some instances the circuit is tracked where it is physically located. In other circumstances, it is tracked by the location of where is operated from. The total number of these cross-border circuits is not material in the national totals.

Wholesale Customers

Exhibit 3.B.5 provides the number of DS0 equivalent lines that Verizon provides to Wholesale Carrier customers, respectively, quarterly for 2004 and 1Q05, separately for each state and MSA in Verizon's franchise area. Although not requested, Exhibit 3.B.6 separately provides the number of lines on a systems rather than channelized basis – that is, without converting high-capacity lines to DS0 equivalents.

Exhibit 3.B.7 provides the number of business UNE-P and business resale lines that Verizon provides. These are the only services that Verizon's Wholesale Local division provides that can be stated in terms of DS0 equivalent lines.

Verizon Online, Verizon Long Distance, Verizon Technologies, and the Enterprise Nonregulated Affiliates do not provide services to wholesale customers that can be stated in DS0-equivalent lines.

- c. *Provide the number of data lines by capacity, separately for MCI and Verizon, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA. Identify which geographic areas are within Verizon's region.*

RESPONSE TO SPECIFICATION 3.c:

Verizon does not in the ordinary course of business track pure “data lines,” and in general Verizon cannot distinguish a “data line” from a “voice line.” Particularly with the advent of IP technology, virtually any line can now be used for both voice and data services, and Verizon typically does not have information on how customers are using their lines.

Verizon has nonetheless at times in its own reporting and here attempted to categorize its various lines as either data or voice lines, based on certain physical properties of those lines. In general, Verizon has treated digital high-capacity lines as data lines, while it has treated analog voice-grade lines as voice lines. In particular, Verizon has grouped the following types of lines as data lines: Primary Rate Interface (PRI), Internet Protocol Routing Service (IPRS), Digital Data Service (DDS), DS1, DS3, and SONET.

Business Customers

Based on the definition above, Exhibit 3.C.1 provides the number of data lines that Verizon provides to ESG and Retail Markets customers, by type and capacity, quarterly for 2004 and 1Q05, and separately for each in Verizon's franchise area. Exhibit 3.C.2 provides these same data by MSA. Verizon Online, Verizon Long Distance, Verizon Technologies, and the Enterprise Nonregulated Affiliates do not provide data lines (as defined above) to business customers.

Wholesale Customers

Based on the definition above, Exhibit 3.C.3 provides the number of data lines that Verizon provides to Wholesale Carrier customers, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area. Exhibit 3.C.4 provides the number of data lines that Verizon provides to Wholesale Local customers, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area. Verizon Online, Verizon Long Distance, Verizon Technologies, and the Enterprise Nonregulated Affiliates do not provide data lines (as defined above) to wholesale customers.

- d. *Provide the market shares analyzed by any appropriate metric separately for MCI, Verizon, and each of the competitors cited in pages 22-34 of the Public Interest Statement, separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b, and separately for the following geographic categories: (1) incumbent LEC franchise area and (2) MSA.*

RESPONSE TO SPECIFICATION 3.d:

As a general matter, Verizon lacks the information necessary to calculate the market shares of the various competitors that serve business and wholesale customers, either nationwide, or for the geographic categories requested in this specification. First, only competing carriers themselves have access to the kind of data that would be required for the Commission to analyze market share in the manner described. Second, there are no uniform or standardized divisions of business and wholesale customers and what limited information is publicly available is difficult to compare on an apples-to-apples basis. Moreover, as the applicants have explained, and as the Commission previously has concluded, the proper analysis includes large enterprise and medium-sized businesses together in a single nationwide market, and these categorizations do not reflect properly defined product or geographic markets.³⁹

Although Verizon is unable to calculate market shares in the manner described in this specification, it has in an effort to assist the Commission provided the market share analyses that it maintains in the ordinary course of business. The declaration of Jeffrey Taylor contained the results of analysis that Verizon's Enterprise Solutions Group Market Strategy & Intelligence prepared in estimating the revenue shares of industry participants in the provision of retail

³⁹ Public Interest Statement at 19-21; Reply Comments at 13-14, 16.

services to large enterprise and medium-sized business customers. The analysis included all wireline products and services, including both voice and data services, as well as customer premises equipment, network management, and IP hosting, storage, and security.⁴⁰ The analysis measured share on a national basis in light of the fact that large enterprise customers often have multistate presence with hundreds of company sites.⁴¹ Based on this analysis, the market share of the following specific providers was calculated: AT&T, MCI, Sprint, Verizon, SBC, BellSouth, and Qwest.⁴² Other competing providers were grouped in one of three categories: “systems integrators & IP applications providers”; “all other CLECs/DLECs”; and “equipment providers.”⁴³ Additional documentation regarding this analysis can be found in Verizon’s response to specification 23. *See* VZFCC-Q23-0001246 through VZFCC-Q23-0001741.

To further assist the Commission, Verizon has provided a report prepared by a Wall Street analyst, Lehman Brothers, which provides independent validation of the results of Verizon’s own internal study.⁴⁴ The Lehman report estimates market shares, based on revenues, for enterprise customers generally (which it defines to include large enterprise, small and medium enterprises, and wholesale), and separately for the large enterprise and wholesale segments.⁴⁵ Lehman also lists the top-five providers of various services that are part of the

⁴⁰ *See* Taylor Decl. ¶ 6 & Exh. 1.

⁴¹ *See id.* ¶ 5.

⁴² *See id.* Exh. 2.

⁴³ *See id.*

⁴⁴ *See* Bruno/Murphy Decl. Exh. 1 (attaching Lehman Brothers, *Enterprise Telecom Services Report* at 3 (Nov. 11, 2003)).

⁴⁵ *See Enterprise Telecom Services Report*, Figs. 12-14.

enterprise and wholesale segments, including voice (wholesale and retail), dedicated Internet access (wholesale and retail), dial-up and DSL wholesale, packet services (retail), private line retail, managed services (retail), and network integration (retail).⁴⁶ Lehman does not provide market shares for the various providers in these lists.

Finally, Verizon has also provided the Commission with descriptions of the various competitors that serve business customers, which included a discussion of the categories of customers these carriers target and the services they provide.⁴⁷ Verizon's response to specifications 5 and 6 provide additional detail about these competing providers.

⁴⁶ *See id.* Fig. 16.

⁴⁷ *See* Bruno/Murphy Decl. ¶¶ 16-26; Bruno et al. Reply Decl. ¶¶ 19, 37-40 & Exh. 4.

- e. *Provide all competitive analyses or studies prepared expressly for MCI or Verizon (whether prepared internally or by outside advisors) that discuss competition between MCI and Verizon for business or wholesale customers in the possession of . . . Verizon employees Michael Boches, Caroline Galand Ward, Michelle Ruseey McCarthy, Michael Hassett, Kathy Koelle, John Havens, Judy Verses, Ronald H. Lataille, Michael Digne, Harry J. McMahon, Scott Pierce, Veronica Pellizzi, Anthony Recine, Kathleen Sullivan, Shelley Murphy, Shawne Angelle, Jeffrey E. Taylor, Eric J. Bruno, Jay A. Behrens, Kimberly G. Lessner, Joseph Lucatorto, Steven G. McCully, Claire Beth Nogay, David Small, Mark C. Griffith, Quintin Lew, Thomas D. Maguire, Jeffrey A. Masoner, Susan Fox, Mark L. Heinold, Kathryn Kalajjian, and John D. Pricken.*

RESPONSE TO SPECIFICATION 3.e:

Any documents from files of the requested custodians that are responsive to this request have been produced.

4. According to page 25 of the Public Interest Statement, “with respect to the large enterprise contracts on which MCI bids, Verizon is rarely, if ever, a competing bidder.” For situations since October 1, 2004 in which MCI or Verizon has submitted a proposal to provide any service to a business customer as defined in 1.a, and in which MCI or Verizon is aware or believes that the other applicant also submitted a proposal identify:

- a. The service(s) which was or were the subject of the proposal;
- b. The month the proposal was submitted;
- c. The class of customer as defined in response to specifications 1.a and 1.b;
- d. The revenues that would have been generated, separately within Verizon’s region and outside Verizon’s region, under the proposal;
- e. Any other person which your company is aware or believes also submitted a proposal;
- f. The location(s) in which the service was or is scheduled to be provided; and
- g. The person awarded the contract to provide the relevant service(s).

RESPONSE TO SPECIFICATION 4:

Exhibit 4.1 contains a list of instances between October 1, 2004 and April 30, 2005 in which Verizon submitted a bid to provide a requested service to a business customer in response to a Request For Proposal or Request For Quote (hereinafter “RFP”) issued by that customer, and for which Verizon believes that MCI also may have submitted a bid in response to the same RFP. As explained further below, because Exhibit 4.1 includes all instances in which there was a match with MCI in customer name and time period for a bid submitted, and does not exclude bidding situations in which Verizon and MCI may have bid for different services covered by the same RFP, or situations in which Verizon and MCI responded to different RFPs issued by the same company, it likely is over-inclusive. Nevertheless, even based on this overly conservative

data, in more than 83 percent of the instances in which Verizon submitted bids between October 1, 2004 and April 20, 2005, MCI does not appear to have bid.

The entries in Exhibit 4.1 were derived in the following manner:

1. For large commercial/government accounts, defined as bids that are valued at \$5 million or more, or that require a complex solution, Verizon queried its Custom Business Services / Customer Network Engineering database to generate a list of bids submitted during the relevant period in response to an RFP issued by a business customer. For small commercial/government accounts, defined as bids valued at less than \$5 million (which are not tracked centrally), Verizon requested that its account managers identify bids submitted during the relevant period in response to an RFP issued by a business customer. For federal accounts, Verizon gathered information from the proposal managers that are responsible for preparing bids. The collection process generated a total of 539 bids submitted by Verizon during the relevant period.
2. To identify the universe of potentially competing bids that appears in Exhibit 4.1, the list of 539 bids submitted by Verizon during the relevant period was cross-referenced with a list of 821 bids provided by MCI. Exhibit 4.1 identifies the instances in which Verizon submitted a bid during the relevant period to the same business customer to whom MCI also submitted a bid. This methodology was unavoidably overly inclusive in two ways.

- a. First, if the same customer issued multiple RFPs during this period, it is possible that Verizon and MCI were bidding on different RFPs issued by the same customer.
 - b. Second, this methodology captured instances in which both Verizon and MCI submitted a bid to the same customer without regard to the services that each was proposing to provide. In many cases, a customer will issue an RFP for an array of services. In response, Verizon may submit a bid to provide the entire array of services or only a subset of the requested services. It is our understanding that MCI similarly may respond to this type of RFP with a bid covering all or only some of the requested services. Thus, the list may contain instances in which Verizon and MCI submitted bids in response to the same RFP, but for an entirely different subset of services.
3. Once the universe of potentially overlapping bids was compiled, Verizon began to verify whether each individual bid actually constituted an instance of direct competition. To comply with the non-disclosure agreements, Verizon has had to obtain further information by speaking with the Verizon customer account managers involved with each individual bid. This process is highly manual and time consuming, and is not yet complete. To the extent that Verizon discovers that some bids included on Exhibit 4.1 were not in fact instances in which

Verizon and MCI directly were competing for the same bid or for the provision of the same services, Verizon plans to supplement its response.

For each bid identified in Exhibit 4.1, Verizon has attempted to provide the information requested in subparts a-g of this specification. Verizon does not maintain some of the requested information in the ordinary course of business, however, and while Verizon has attempted to compile this information, it is not available in all instances. In some instances, the availability of the information depends upon the category (large commercial/government, small commercial/government, or federal) into which the bid falls.

- a. Where available, Exhibit 4.1 contains the services that were the subject of the bid.
- b. For small commercial/government bids, Exhibit 4.1 generally contains the submission date of the bid. For large commercial/government bids and for federal government bids, Exhibit 4.1 generally contains both the date that Verizon received the RFP from the business customer and the date on which it submitted its corresponding bid.
- c. Verizon groups its bids into three categories of customers, as specified above: (1) large commercial/government, which includes bids to provide more than \$5 million in services and bids that require complex solutions, regardless of value; (2) small commercial/government, which includes bids to provide less than \$5 million in services; and (3) bids submitted to federal government entities. For each bid submitted, Exhibit 4.1 identifies the appropriate category of customer.

- d. Where available, Exhibit 4.1 contains the value of the bid, stated in terms of the revenues to be generated from the contracted services to be provided by Verizon. Verizon does not track projected revenue generation separately within Verizon's region and outside Verizon's region, and has no reliable way to make such a revenue allocation, particularly because some bids involve end-to-end connectivity to multiple locations nationwide.
- e. Verizon generally is not informed by the business customer of the identities of competing bidders. Even when the customer provides this information, Verizon does not necessarily know for which services the competitor submitted a bid. Moreover, Verizon does not routinely track the identities of competing bidders. The information is provided in Exhibit 4.1 to the extent that Verizon has been able to obtain it.
- f. Verizon does not centrally track the location(s) in which the service was or is scheduled to be provided. Many of the RFPs are for multiple services at different locations. Where available, this information is contained in Exhibit 4.1.
- g. Verizon frequently is not informed by the business customer of the identity of the winning bidder. Even when Verizon does obtain this information, it does not routinely track it. Moreover, many of the bids listed in Exhibit 4.1 are pending, so the customer has not yet selected a winner.

B. Special Access and Private Line Services

5. Page 34 of the Public Interest Statement states that “more than 100 different providers have deployed competitive fiber” in Verizon’s serving area. Paragraph 14 of the Declaration of Quintin Lew and Ronald H. Lataille indicates many competitors for Verizon wholesale special access circuits have deployed high-capacity access facilities in Verizon’s service territory as well as where Verizon and MCI’s access facilities overlap.

- a. For each incumbent LEC franchise area and MSA where MCI or Verizon provide special access service, provide the special access revenues billed and number of circuits for MCI and Verizon, separately for each type of special access service, and separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b. Provide definitions for each type of special access service (which, cumulatively, should encompass all special access services offered by the company). For MCI, please indicate the underlying facility ownership.

RESPONSE TO SPECIFICATION 5.a:

In the ordinary course of business, Verizon generally considers special access to be a dedicated point-to-point facility provided to wholesale or retail customers. As Verizon has explained, approximately 80 percent of Verizon’s special access revenues is earned from selling those facilities to other carriers, who in turn often resell them to retail customers.⁴⁸ The remaining 20 percent is earned from providing special access to business customers on a retail basis, often as part of another service offering such as dedicated exchange access, dedicated Internet access, or Centrex, to name a few.

Verizon generally tracks special access circuits and revenues according to the types and bandwidth of the underlying facilities. With respect to volumes of circuits, Verizon tracks special access services by billable units, one of which is called a channel termination, which is

⁴⁸ See Lew/Lataille Decl. ¶ 4.

the facility that connects the Verizon serving wire center to the end-user premises or carrier POP. In addition, Verizon tracks the transport between two Verizon central offices (referred to here as “special access transport”) separately from channel terminations. Special access revenues are typically tracked by bandwidth, *e.g.*, DS1, DS3, OC3, OC12, etc. – for example, DS1 special access revenue would include revenue for all billable units associated with DS1 service.

Depending on the type of service, Verizon records volumes of special access circuits based on certain billable units, which may differ by service, and may include the number of actual circuits, channel terminations, optical transport channels, channel extensions, or central office nodes. Each channel termination represents one leg in a circuit; some circuits may have only a single channel termination, while others may have two, with a mileage component in between. Certain types of optical services provide dedicated facilities in a ring configuration, and are measured in terms of nodes or optical transport channels. Other optical services provide dedicated capacity on shared facilities, and are therefore measured in terms of channel extensions.

With respect to volumes of special access circuits other than special access transport, the following are the various categories that Verizon tracks in the ordinary course of business, with respect to both retail and wholesale customers:

a. Digital End User Special Access. A facility provided to an end-user premises.

Verizon is separately reporting channel terminations for this category at the following different capacities: DS0, DS1, DS3. Verizon’s database systems for the former Bell Atlantic service area cannot distinguish between special access DS0s and DS1s that

terminate at an end-user customer location, and those that terminate at an interexchange carrier's POP. Verizon has therefore included both types of special access DS0 and DS1 circuits in its response for this category.

b. Digital POP Special Access. A facility provided to a location other than an end-user premises. Verizon is reporting channel terminations for this category at the DS3 level, and at the DS0 and DS1 level for the former GTE service area only.

c. DS0, DS1, and DS3 Synchronous Optical Network ("SONET") Special Access Services. In the former Bell Atlantic service areas, this consists of IntelliLight Shared Assurance Network (DS1 and DS3), IntelliLight Shared Dual Path (DS1 and DS3), and IntelliLight Shared Single Path (DS3), and is reported in channel terminations. In the former GTE service areas, this consists of Banded Optical Transport and Expanded Band Optical Transport (DS0, DS1, and DS3), and is reported as circuits.

d. Dense Wavelength Division Multiplexing ("DWDM") IntelliLight Optical Transport Service Special Access. An advanced data networking service that uses DWDM technology. Verizon is reporting optical transport channels for this category.

e. Facilities Management Service ("FMS"). A special purchasing plan for carriers to obtain special access facilities on a DS0 equivalent basis. Under this option, Verizon manages the engineering and design of a customer's special access network from the customer's designated primary premises to serving wire centers within the same LATA. Verizon is separately reporting channel terminations for this category at the following different capacities: DS3, OC3, and OC12.

f. LAN (Local Area Network) Extension Service (“LES”). Provides a high capacity facility between two customer designated premises (one of which must be a service provider’s POP with the other being the service provider’s end user) or between a customer designated premises and a customer’s equipment in a Verizon collocated interconnection service arrangement. Verizon is separately reporting channel terminations for this category at the following different capacities: 10 Mbps, 100 Mbps, and 1 Gbps.

g. OCn Point-to-Point Special Access. A dedicated SONET facility provided at OCn-level between two customer designated locations. Verizon is separately reporting channel terminations for this category at the following different capacities: OC3, OC12, OC48, and OC192.

h. OCn Ring Special Access. A high capacity OCn level circuit provided over a SONET ring. Verizon is separately reporting nodes that are part of a ring configuration for this category at the following different capacities: OC3, OC12, OC48, and OC192.

i. Synchronous Transport Signal Level (“STS1”) Special Access. A high capacity dedicated facility at 51.84 Mbps which can carry a DS3 or 28 DS1s. The data reported are channel terminations.

j. Verizon Optical Networking (“VON”) Total Special Access. VON service provides managed optical transport of data signals of various speeds over Verizon’s shared network. VON architecture allows for point-to-point transmissions of varying bandwidths between customer designated premises. Verizon is separately reporting channel

terminations for this category at the following different capacities: 10 Mbps, 100 Mbps, 1 Gbps. The associated revenue is recorded as “Ethernet.”

k. Digital Data Service (“DDS”). Provides a dedicated facility between two or more points, at bandwidth from 2.4 to 64 Kbps.

l. Analog End User Special Access. A dedicated voice-grade equivalent line provided to an end-user premises. The data reported is channel terminations. For the former Bell Atlantic service areas, all analog voice grade channel terminations are reported in this category.

m. Analog POP Special Access. A dedicated voice-grade equivalent line provided to a location other than an end-user premises. The data reported is channel terminations for the former GTE service areas only.

With respect to special access transport, Verizon has reported special access circuits, terminations, CO nodes, or rings in the following categories: analog voice-grade lines; DDS; DS1, DS3; DWDM; FMS (DS3); STS1; and, for the former GTE service areas, SONET (DS1, DS3, OC 3, OC 12, OC 24, OC 48, OC 192).

Business Customers

Exhibit 5.A.1 provides, for categories a-m above, the total number of special access units that Verizon provides to retail business customers. These data are provided separately for ESG and Retail Markets, quarterly for 2004 and 1Q05, and separately for each state and MSA in

Verizon's franchise area.⁴⁹ Verizon Online, Verizon Long Distance, Verizon Technologies, and the Enterprise Nonregulated Affiliates do not provide special access circuits to retail business customers.

Exhibit 5.A.2 provides for special access transport, the total number of special access units that Verizon provides to retail business customers. These data are provided separately for ESG and Retail Markets, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area.⁵⁰

Exhibit 5.A.3 provides, for categories a-m above and special access transport combined, Verizon's revenues from special access provided to retail business customers. These data are provided separately for ESG and Retail Markets, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area. Verizon does not track retail special access revenues by MSA in the ordinary course of business. Verizon does maintain special access revenues by wire center, however, based on the original service order submitted by the customer. Revenue by wire center was then mapped to MSA.

⁴⁹ Verizon maintains these data (and data provided in response to other specifications) separately for the former Bell Atlantic service area (including both the former Bell Atlantic and the former NYNEX and referred to in the spreadsheet as Verizon East) and the former GTE service areas (referred to as Verizon West). Pennsylvania and Virginia have areas located within both former Bell Atlantic and former GTE territories, and Verizon has reported data separately for these areas.

⁵⁰ Verizon maintains these data (and data provided in response to other specifications) separately for the former Bell Atlantic North or NYNEX service areas (referred to in the spreadsheet as Verizon East), former Bell Atlantic South or original Bell Atlantic services areas (referred to as Verizon South) territories, and the former GTE service areas (referred to as Verizon West).

Wholesale Customers

Exhibit 5.A.4 provides, for categories a-m above, the total number of special access units that Verizon provides to wholesale customers, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area. These data represent totals provided by Wholesale Carrier; Wholesale Local does not provide special access.

Exhibit 5.A.5 provides for special access transport, the total number of special access units that Verizon provides to retail wholesale customers. These data are provided quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area.

Exhibit 5.A.6 provides, for categories a-m above and special access transport combined, Verizon's revenues from special access provided to wholesale customers, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area. Verizon does not track wholesale special access revenues by MSA in the ordinary course of business. Verizon does maintain special access revenues by wire center, however, based on the original service order submitted by the customer. Revenue by wire center was then mapped to MSA.

b. For each incumbent LEC franchise area and MSA within Verizon's region where MCI or Verizon provide special access service, identify the five major special access competitors (based on market share), and provide an estimate of the special access revenues billed and number of circuits for each competitor, separately for each type of special access service identified in response to specification 5.a. Provide an explanation of how this estimate was determined, and provide supporting documentation.

RESPONSE TO SPECIFICATION 5.b:

As a general matter, Verizon lacks the information necessary to calculate the market shares of the various competitors that serve business and wholesale customers, either nationwide, or for the geographic categories requested in this specification. First, only competing carriers themselves have the kind of data that would be necessary for such an analysis, including the extent to which such carriers provide special access service entirely over their own facilities or that they obtained from third parties, the number of circuits provided over those facilities and the revenues billed, and the revenues generated from reselling special access obtained from Verizon. Second, as explained above, there is no generally accepted definition of special access service, and different carriers may include different retail and wholesale services in this category.

Although Verizon is unable to calculate market shares in the manner described in this specification, in an effort to assist the Commission Verizon is providing the following information that is relevant to this inquiry. These sources suggest that competing carriers have a significant share of special access revenues provided at the retail level.

First, Table 5.B.1 below provides "dedicated access/transport revenues" for competing carriers, as reported in New Paradigm Resources Group's 2005 CLEC Report.⁵¹ The dedicated

⁵¹ New Paradigm Resources Group, *CLEC Report 2005*, Ch. 6 (19th ed. 2005), produced at VZFCC-Q23-0003382 through 0004162.

access and transport revenues for the 34 competing carriers for which they report data total \$4 billion for 2004.⁵² Given that this is only a small subset of the known carriers that provide special access, this figure likely understates, perhaps substantially, total competitive special access revenues.

Second, Exhibit 5.B.1 provides the number of special access circuits that Verizon provides to individual competing carriers, by state and by MSA. To the extent that competing carriers use these circuits to provide special access to end-user customers, these circuits would have to be included in determining the services provided by competing carriers. Exhibit 5.A.1 (provided in response to specification 5.a) provides the number of special access lines that Verizon provides on a retail basis, by state and by MSA, which provides data on Verizon's relative retail sales that could be compared to similar data from other carriers.

Third, Exhibit 5.B.2 is a copy of the *2004 UNE Fact Report* that was originally submitted in WC Docket No. 04-313. Tables III-7, III-9, and III-11 of that report identify competing carriers that offer high-capacity service offerings, on a retail and wholesale level, respectively. Pages I-8 to I-10, III-39 to III-40 of that report also discuss competitors' share of the nationwide special access market.

Finally, Exhibit 5.B.3 contains materials from carriers websites describing their high-capacity offerings, which should further assist the Commission in identifying major special access competitors.

⁵² New Paradigm reports total CLEC revenue and the percentage derived from dedicated access/transport services. The table contains the product of these two figures.

Table 5.B.1. Dedicated Access/Transport Revenues Reported by New Paradigm Resources Group	
CLEC	Revenue (\$000)
AT&T	1,494,000
BayRing	741
Broadview Networks	4,219
Buckeye TeleSystems	3,850
Cablevision Lightpath	34,875
Cavalier Telephone	20,200
Cinergy	720
Comcast Business Communications	10,223
Cox	28,400
Eagle Communications	2,000
Eschelon Telecom	4,770
GCI Communications	76,500
Global NAPs	4,800
Grande Communications Network	11,000
ICG Communications	63,800
Integra Telecom	21,750
ITC^DeltaCom	146,400
Jaguar Communications	50
KMC Telecom	86,000
Logix Communications Enterprise	3,900
MCI	800,000
McLeodUSA	61,600
Mpower	21,700
NTS Communications	22,500
Orlando Telephone Company	750
Pac-West Telecomm	23,000
Sigecom	1,100
StratusWave	800
TelCove	84,755
Telepacific Communications	28,560
TelNet Worldwide	2,550
Time Warner Telecom	357,500
US LEC	118,470

XO	435,947
Total	\$3,977,428

- c. *For each incumbent LEC franchise area where MCI or Verizon provide private line service, provide the private line revenues billed and number of circuits for MCI and Verizon, separately for each type of private line service, and separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b. Provide definitions for each type of private line service (which, cumulatively, should encompass all private line services offered by the company).*

RESPONSE TO SPECIFICATION 5.c:

There is no generally accepted definition of private-line service, which is often used interchangeably with special access or dedicated transport or access. Verizon offers what it characterizes as private line service as an intrastate service on a retail basis, and also offers private line on a wholesale basis for resale.

Business customers

In the ordinary course of business, Verizon tracks retail private line circuits by the following different service categories, which collectively represent all of Verizon's private line circuits and revenues provided to retail customers:

- a. *Digital End User Private Line:* A high-capacity circuit provided to an end-user premises. Verizon is separately reporting channel terminations for this category at the following different capacities: DS0, DS1, DS3.
- b. *DS1 or DS3 SONET Private Line:* A high-capacity circuit provided over a SONET ring. Verizon is separately reporting channel terminations for this category at the following different capacities: DS1, DS3.
- c. *OCn Point-to-Point Private Line* A dedicated SONET circuit provided between two customer designated locations on an OCn-level facility. Verizon is separately reporting

channel terminations for this category at the following different capacities:: OC3, OC12, OC48.

d. VON Total Private Line. VON service provides managed optical transport of data signals of various speeds over Verizon's shared network. VON architecture allows for point-to-point transmissions of varying bandwidths between customer designated premises. Verizon is separately reporting channel terminations for this category at the following different capacities: 1 Gbps

e. Dense Wavelength Division Multiplexing ("DWDM") IntelliLight Optical Transport Service Private Line. An advanced data networking service that uses DWDM technology. Verizon is reporting optical transport channels for this category.

f. Analog End User Private Line: A dedicated voice-grade equivalent (*i.e.*, DS0) circuit provided to an end-user premises. The data reported is channel terminations.

Exhibit 5.C.1 provides, for each of the private line services described above, the total number of private line circuits that Verizon provides to retail business customers. These data are provided separately for ESG and Retail Markets, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area. Verizon Online, Verizon Long Distance, Verizon Technologies, and the Enterprise Nonregulated Affiliates do not provide private line circuits to retail business customers.

Exhibit 5.C.2 provides combined revenue for the private line services described above. These data are provided separately for ESG and Retail Markets, quarterly for 2004 and 1Q05,

and separately by state. Verizon does not track retail private line revenues by MSA in the ordinary course of business.

Wholesale Customers

As noted above, Verizon provides resold private line service on a wholesale basis for resale. In the ordinary course of business, Verizon tracks resold private line circuits by the following different service categories, which collectively represent all of Verizon's private line circuits and revenues provided to wholesale customers: Resale DS0 digital, Resale DS1, Resale DS3, Resale DS0 analog.

Exhibit 5.C.3 provides, for each of these resold private line services, the total number of private line circuits that Verizon provides, quarterly for 2004 and 1Q05, and separately for each state and MSA in Verizon's franchise area.

Exhibit 5.C.2 provides combined revenues for the private line services described above, quarterly for 2004 and 1Q05. These data are provided separately for Wholesale Local and "Carrier (ISP)."⁵³ Verizon does not track wholesale private line revenues by MSA in the ordinary course of business.

⁵³ Verizon has traditionally reported lines provided to ISPs together with retail lines provided to business customers. Beginning in 2005, however, Verizon began providing through its Wholesale Carrier division lines provided to two categories of ISPs: large national ISPs, and other ISPs that already had an existing account relationship with Verizon. As reported here and elsewhere in these specifications, the Carrier (ISP) category consists exclusively of the lines provided to these two categories of ISPs. Retail Markets is still responsible for providing lines to other ISP customers, and the revenues from serving these other ISPs are included in the totals for retail customers.

d. For each incumbent LEC franchise area within Verizon's region where MCI or Verizon provide private line service, identify the five major private line competitors (based on market share), and provide an estimate of the private line revenues billed and number of circuits for each competitor, separately for each type of private line service identified in response to specification 5.c. Provide an explanation of how this estimate was determined, and provide supporting documentation.

RESPONSE TO SPECIFICATION 5.d:

Although Verizon provides in some areas a service that it calls private line service, with respect to the industry at large there is no generally accepted distinction between private line and special access services, or a generally accepted definition of private line service. Indeed, the Commission's own Telecommunications Industry Revenues report groups special access and private line revenues together, as do other industry report such as New Paradigm's *2005 CLEC Report*. Thus, to the extent Verizon has any relevant information regarding this specification, it is contained in Verizon's response to specification 5.b above.

6. According to paragraph 19 of the Declaration of Quintin Lew and Ronald H. Lataille, MCI owns local facilities in 39 different wire center clusters within Verizon's region. In paragraphs 20-25, Lew and Lataille declare that there are, generally, numerous providers of high-capacity local access services and that the "combination of MCI and Verizon does not change the competitive landscape." In paragraph 7 of the Declaration of Jonathan P. Powell and Stephen M. Owens, state than in those 19 clusters, "MCI's local fiber networks span only a small part of each metropolitan area."

- a-c. In accordance with Instruction 20.a, this specification applies only to MCI.
- d. With respect to MCI, for each MSA identified in response to specification 6.a, and with respect to Verizon, for each MSA within Verizon's franchise area where MCI is collocated, identify and describe the facilities deployed by carriers that compete with Verizon and/or MCI. Describe the retail and wholesale services that each competing carrier provides using those facilities, and identify the types of customers to which each service is provided separately for each class of business and wholesale customers as defined in response to specifications 1.a and 1.b.
- e. In accordance with Instruction 20.a, this specification applies only to MCI.

RESPONSE TO SPECIFICATION 6.d:

Verizon's ability to provide detailed information with respect to the services offered and customers served by competing carriers necessarily is limited. Competing carriers generally have refused to provide this type of information in a manner that it can be used or made available in regulatory proceedings, and the particular CLECs who appeared in this proceeding have not supplied any data as to the extent of their own networks or their services in areas where Verizon and MCI have overlapping facilities. As a result, Verizon's response is limited to data based on purchased third party data, data based on carriers installing fiber-based collocation in Verizon central offices, or publicly available data.

The 39 wire center clusters in which MCI has deployed fiber facilities are located in 26 MSAs in Verizon's service areas. There are four additional MSAs where MCI is collocated, but

does not have any local fiber, making a total of 30 MSAs where MCI is collocated in Verizon offices (or has fiber).⁵⁴ Exhibit 6.D.1 provides a list of known competing carriers that have deployed facilities in any of Verizon's these 30 in-region MSAs in which MCI has obtained collocation, based on the following four sources: (1) Data from GeoTel indicate the locations of carrier fiber routes in metropolitan areas;⁵⁵ (2) Data from GeoResults indicate the buildings at which competing carriers have deployed fiber-based equipment in metropolitan areas;⁵⁶ (3) Data from New Paradigm Resources Group *2005 CLEC Report* indicate the metropolitan areas in which competing carriers have operational or on-net networks; and (4) Verizon's data indicate wire centers in which competing carriers have obtained fiber-based collocation. As Verizon and MCI have explained, these data do not include all competitive fiber, but instead represent a limited subset of carriers for which fiber data are available.⁵⁷ Even for the carriers listed, the indirect and third party sources likely understate the scope of their fiber deployment.

Exhibit 6.D.2 contains maps of competitive fiber – excluding MCI fiber – for the 30 in-region MSAs in which MCI has obtained collocation. These maps show the wire centers in which competing carriers have obtained fiber-based collocation, as well as the known CLEC fiber routes, based on the GeoTel data cited above.

⁵⁴ In one of these MSAs, Riverside-San-Bernadino-Ontario, CA, MCI has fiber, but not collocation. We have included this in our answer as well.

⁵⁵ Exhibit 11 to the Lew/Lataille Declaration contains a description of these data.

⁵⁶ Exhibit 11 to the Lew/Lataille Declaration contains a description of these data.

⁵⁷ See Lew/Lataille Decl. ¶ 21; Verizon/MCI Reply Comments at 15, 28-37.

As noted above, Verizon does not have detailed information on how competing carriers are using the various fiber facilities they have deployed, including they types of services they provide over those facilities, or the types of customers they serve. Only competing carriers themselves have such information. To assist the Commission, Verizon has attempted to compile descriptions of competing carriers' service offerings based on these carriers websites. Exhibit 6.D.3 contains such descriptions for all of the carriers listed in Exhibit 6.D.1, to the extent available.

7. For each state in which Verizon operates as an incumbent LEC, describe the state regulation, if any, that applies to special access and private line services.

RESPONSE TO SPECIFICATION 7:

Arizona: Private line and special access services are provided under tariffs and regulated under rate of return regulation.

California: Special access services offered by Verizon California and by Verizon Northwest are regulated and are subject to tariff. Verizon California's special access services are classified as partially competitive services that have pricing flexibility between a price floor and ceiling. The price floor for many existing special access services is the lower of long run incremental cost (LRIC) or direct embedded cost (DEC). More recently, the price floor formula was revised to be the sum of the volume-sensitive portion of the total service long run incremental cost plus the contribution from services designated as "monopoly building blocks" used to provide the service. The price floor is adjusted annually for inflation in an annual price cap filing. The ceiling is the current tariffed rate. Price increases above the ceiling are expected to be revenue neutral, may require hearings and are subject to customer notification requirements. (See D. 94-09-065, p. 81. This order consolidated, eliminated and restructured the private line tariffs into one tariff and called these special access tariffs.) Verizon Northwest's special access services are subject to traditional rate of return regulation.

Connecticut: Special access and intraLATA private line services are provided under tariff. (State of Connecticut No. 8, Access Service Tariff and State of Connecticut No. 2, General Exchange Tariff). Verizon is subject to an Alternative Regulation Plan approved in CT DPUC Docket No. 99-03-06RE01. Under the plan's pricing rules, Verizon may:

- implement revenue-neutral rate restructurings and rate reductions for all services;
- seek customer-specific pricing and minimum and maximum type pricing flexibility for new services and new service packages; and
- for certain private line and other services for which minimum and maximum rates currently are in place, exercise the pricing flexibility permitted by tariff.

Delaware: Verizon Delaware is regulated pursuant to Delaware’s Telecommunications Technology and Investment Act (“TTIA”). *See* 26 Del. C. § 704, *et seq.*, which provides the framework for Verizon Delaware’s provisioning of telecommunications services. The TTIA has three categories of services: Basic (services “for which significant barriers exist impeding entry into the market”); Competitive; and Discretionary (services which are “neither ‘basic services’ nor ‘competitive services’”). *See* 26 Del. C. § 705 (a) - (c).

Special access services are generally provided pursuant to the Delaware Basic tariff, P.S.C.-Del – No. 36, and prices for these services must be just and reasonable. Changes to rates for services provided pursuant to the Delaware Basic tariff are made on 60 days notice and rate increases are not allowed unless the filing is revenue neutral or is part of the annual filing to adjust the Price Index for changes in the Gross Domestic Product Price Index (GDP-PI). Increases in rates for basic services may not exceed that permitted by the application of the Price Index formula (GDP-PI minus 3%). *See* 26 Del. C. §§ 304(a) & 707 (b) - (c).

Private line services are generally provided pursuant to the Guide for Discretionary Services. *See* Guide for Detariffed Services – Discretionary; Section 36). Discretionary service prices must equal or exceed incremental cost and may not be increased by more than 15 percent

per calendar year. Fourteen days notice must be provided for rate increases to private line services and all prices for discretionary services shall be filed with the Delaware Commission and made available for public inspection. *See* 26 Del. C. § 708 (a) - (b).

High-capacity (1.544 mbps and above) special access and private line services are provided via the Guide for Competitive Services in Delaware. *See* Guide for Detariffed Services – Competitive; Section 36 and Section 36A. Rates for Competitive services must be set above incremental costs. Cross subsidization is prohibited. Rates, terms and conditions for competitive services may be determined by the telecommunications service provider and providers must give the Delaware Commission 72 hours written notice of any changes to rates, terms and conditions. *See* 26 Del. C. § 709, Rules and Regulations for Implementing the Telecommunications Technology Investment Act, Rule 3.6.

District of Columbia: Verizon DC does not offer intrastate special access. Intrastate private line services are classified as competitive services under the DC PSC’s Price Cap Plan. *See* Order No. 13370, Formal Case No. 1005, *In the Matter of Verizon Washington, DC Inc.’s Price Cap Plan 2004 for the Provision of Local Telecommunications Services in the District of Columbia* (Sept. 9, 2004). Rates must cover incremental costs and can be revised upon 14 days notice.

Florida: Special access and private line services are required to be tariffed but are subject to the Florida Commission’s price cap plan. Rates can be increased by up to 20 percent annually without the submission of cost support.

Idaho: Special access and private line services are provided under tariff and are currently regulated under rate of return regulation. However, under new legislation, beginning July 1, 2005 telecommunications providers may elect to deregulate any or all of their intrastate regulated services. There is a 10-percent cap on basic rate increases during a three-year transition period. Special access will have complete pricing flexibility. *See* House Bill 224, amending Idaho Code 62-604, -605, and -617 and adding 62-607A, -616A, and -622A.

Illinois: Special access and private line services are provided under tariff. The rates mirror those filed in Verizon's interstate access tariff. In competitive situations, Verizon may change the rates for DS1s as long as the rate is above cost.

Indiana: Under the Alternative Regulatory Plan that became effective in August 2004, there are three tiers of regulation, with Tier 1 being the most regulated (basic service) and Tier 3 being the least regulated. Local private line services are considered a Tier 3 service and prices can be increased on a one-day notice to the Indiana Commission. Prices can be decreased with a showing that prices equal or exceed TSLRIC + 10 percent. Intrastate special access and intrastate intraLATA private line services are not referenced in the current regulatory plan and are therefore still priced according to the former Indiana agreement in which rates are frozen at the 1/1/2000 level (a mirror of the federal rates at that time).

Maine: Maine is a single LATA state and has little, if any, intrastate special access. Rates, terms and conditions for special access services are tariffed (PUC ME No. 17). Special access services prices in the Maine tariff mirror rates in Verizon's interstate special access tariff.

Verizon private line services are tariffed (PUC ME No. 15) and have pricing flexibility, subject to a requirement that service rates cover their costs. The statute requires advance customer notification of rate increases or changes in terms and conditions for interexchange services.

Maryland: Both special access and private line services are provided under tariff and regulated by the Maryland Public Service Commission. These services are classified as “competitive services” under Maryland’s price cap plan. Verizon has complete pricing flexibility for these services, except that prices may not be set below the service’s incremental cost.

Massachusetts: The Department of Telecommunications and Energy regulates the intrastate services Verizon MA offers in accordance with its Massachusetts Alternative Regulation Plan. Under the Plan, special access services must be tariffed (DTE MA No. 15), and the rates and charges are price regulated. Intrastate special access rates cannot be increased, except to reflect exogenous changes.

Retail private line services must be provided via tariff (DTE MA No. 10), and rates and charges are price regulated. Prices for these services are frozen, except for exogenous changes.

Price changes to reflect exogenous events must be approved by the DTE. Exogenous changes are increases or decreases in costs or revenues caused by events beyond the control of the Company, for example, changes in law or regulatory requirements.

Michigan: Special access and private line services are offered under tariff (MPSC Tariff 25R). Under the Michigan Telecommunications Act, MCL § 484.2101, *et seq.*, prices for both services mirror the special access rates in Verizon’s interstate access tariff.

Nevada: Private line and special access services are provided under tariffs and regulated under rate of return regulation.

New Hampshire: Verizon NH does not offer intrastate special access services. Intrastate private line service is tariffed in NHPUC Tariff No. 83 – Exchange and Network Services – Part B, Section 2. Rates are set on a rate of return basis and must be cost-supported. In accordance with N.H. Admin. Rules, Puc 1603.02(m), applications for rate changes require a filing package, which includes a service description, cost support (including a price floor test) and three-year revenue and demand forecasts (if available).

New Jersey: The provision of intrastate special access and private line services is governed by Tariff B.P.U. N.J.-No.2, Access Service, and Tariff B.P.U. N.J.-No.2, Channel Service, respectively.

IntraLATA special access services are “protected” services under Verizon’s current Plan for Alternative Regulation (“PAR 2”) and are classified as rate regulated services. Price revisions (up or down), as well as revisions to the terms, conditions or other regulation of these services require approval by the New Jersey Board of Public Utilities after notice and hearing.

IntraLATA private line services (which in New Jersey are called “Channel Services”) fall into two categories: (i) rate regulated services, or (ii) services that the Board has deemed competitive services. For rate regulated Channel Services, the rules relating to changes to

IntraLATA Special Access Services (discussed above) apply. For competitive Channel Services, the Board's rules applicable to all LECs and intrastate interexchange carriers offering competitive services govern. Competitive services rules require informational tariffs to be filed with the Board, but Board approval of the tariffs is not required. The Board does not regulate the price or terms and conditions of competitive services. However, regulations require that the rate a LEC charges for a competitive service must exceed the rate charged for any noncompetitive services used by the LEC to provide the competitive service.

New York: Intrastate private line services are provided pursuant to tariff. *See, e.g.*, Verizon New York Inc. Tariff P.S.C. No. 1, § 4(E.36) [Flexpath Digital PBX Service]; *id.*, §4(I.6) [HotLine Virtual Private Line Service]; *id.* § 4(I.17) [Intellipath II Digital Centrex Service]; *id.*, § 12(G) [Superpath 1.5 megabit/sec Service]. Some of these products have flexible pricing with minimum and maximum price ranges set forth in the tariff.

In general, these tariffed offerings are subject to the same New York Public Service Commission supervisory powers as other tariffed offerings. These include the New York PSC's ability to disapprove tariff changes or suspend them for investigation, to set temporary rates in appropriate circumstances, and to initiate proceedings to consider whether Verizon should be required to change its tariffs. *See, e.g.*, New York Public Service Law §§ 92, 97. The New York PSC has wide discretion to determine whether particular rates, terms, and conditions are "just and reasonable." Generally, Individual Case Basis pricing is authorized for these services. *See, e.g.*, Verizon New York Inc. Tariff No. 1, § 1(A)(15). If rate increases sought through the tariff process would increase Verizon's aggregate intrastate revenues by more than 2.5 percent, then

the New York PSC would hold hearings before approving such an increase. *See* New York Public Service Law § 92.

North Carolina: In an order dated May 9, 2005, the North Carolina Utilities Commission approved stipulated revisions to Verizon's Price Regulation Plan which are expected to be effective June 1, 2005. Under the revised plan, special access and private line services are classified in the High Pricing Flexibility category. Under this category, rates for individual services may be increased by up to 20 percent annually and overall revenue increase is capped at GDP-PI times 2.5.

Ohio: Verizon provides special access and private line services on an intrastate basis at the same rates and under the same provisions that it provides these services to its customers under Verizon's interstate access tariff.

Oregon: Within Verizon Northwest's filed exchanges (*i.e.*, its ILEC territory), intrastate special access and private line services are provided under tariff and prices are set under rate of return regulation. The Company also has authority to provide service outside its filed exchanges on an unregulated basis. *See* ORS 759.020, .050, Order No. 98-481 in docket CP 502 (11/20/98).

Pennsylvania: Intrastate special access services for both Verizon Pennsylvania, *see* Pa. P.U.C. –No. 304, and Verizon North, *see* Telephone Pa. P.U.C. –No. 9, are regulated and provided pursuant to state tariff. They are classified as non-competitive, protected services. Rate increases for these services must be revenue neutral or made as part of the annual Price Change Opportunity filing, when non-competitive revenues may be increased by the Gross

Domestic Product Price Index (GDP-PI) minus .5 percent. Charges must be reasonable and services must be provided on a nondiscriminatory basis. *See* Amended Title 66 Pa. C.S. § 3015. (A) Inflation Offset (1)(II), (G) Alternate Forms of Regulation and Rate Change Limitations. *See also* Bell Atlantic – Pennsylvania Inc.’s Alternative Regulation Plan (Docket No. P-00930715) Part 1-B-3, C-1 and Part 2-B and Final Alternative Regulation Plan of Verizon North, Inc (Docket No. P-00981449), Part 3-A and 3-B. Regulated services must not subsidize the competitive ventures of telecommunications carriers. Verizon must provide at least 30 days notice to customers of any rate increase. *See* 52 Pa. Code §53.31 to §53.45.

All private line services for Verizon Pennsylvania, *see* Pa. P.U.C. No. 500, and virtually all private line services for Verizon North, *see* Telephone Pa. P.U.C.-No. 11, are classified as competitive services. Prices for competitive services must be set at or above costs. DS1, *see* Telephone Pa. P.U.C. –No 4; Section 13, and intercompany private line services, *see* Telephone Pa. P.U.C. –No 7, in Verizon North are classified as non-competitive services. No rate increases are allowed for these services unless the increases are revenue neutral or are part of the annual Price Change Opportunity filing. *See* Amended Title 66 Pa. C.S. § 3015.G – Alternate Forms of Regulation and Rate Change Limitations; *see also* Bell Atlantic – Pennsylvania Inc.’s Alternative Regulation Plan (Docket No. P-00930715) Part 1-B-3, C-1, Part 2-B and Final Alternative Regulation Plan of Verizon North, Inc. (Docket No. P-00981449), Part 3-A , 3-B and Part 2-B-3.

Rhode Island: Verizon RI has total pricing flexibility with respect to private line services, provided it does not price below its long-run incremental cost. Verizon RI does not offer intrastate special access services.

South Carolina: Special access and private line services are classified as non-basic services. Tariffs to increase rates or offer new non-basic services are presumed valid after 14 days and tariffs to change terms and conditions of non-basic services are presumed valid after 7 days. All non-basic filings are subject to intervention. The annual aggregate increase in rates is limited to 5 percent.

Texas: Special access and private line services are classified as non-basic services. The rates, terms and conditions of non-basic services can be revised on an Informational Notice filing made on 10 days notice. To adjust rates, a LRIC study must be on file with the PUC and any rate proposed cannot be below the LRIC. *See* Public Utility Commission of Texas, Chapter 26, Substantive Rules Applicable to Telecommunications Service Providers, Subchapter J - Costs, Rates and Tariffs, Section 26.225 - Requirements Applicable to Nonbasic Services for Chapter 58 Electing Companies.

Vermont: Verizon Vermont is operating under an Alternative Form of Regulation that expires this year. Proceedings are currently in progress in Vermont Docket No. 6959 for a second generation Alternative Form of Regulation. The final order is expected in September 2005 and is expected to be retroactive to July 1, 2005.

Currently, Verizon Vermont is not allowed to raise prices for services that were in effect at the time of the current Alternative Form of Regulation order, entered March 24, 2000. Any

“new” service may be introduced without Vermont Public Service Board review, as long as Verizon Vermont passes a required price floor analysis. Verizon Vermont has no upward pricing flexibility for existing services, but does have upward pricing flexibility for any service introduced after the AFOR went into effect. There is downward pricing flexibility on any services.

Intrastate access services are provided in accordance with the Vermont Public Service Board Tariff No. 23 and private line services are provided under the Vermont Public Service Board Tariff No. 20.

Virginia: In Virginia, Verizon’s Regulatory Plan governs intrastate special access and private line services. The services are provided under tariff, and prices may only be increased up to 10 percent annually. Where competitive alternatives for individual customers exist, these services may be offered at non-tariffed prices, but subject to a price floor.

Individual-Case-Basis (ICB) or custom-service-package contract pricing is allowed for special access and private line services when a competitive alternative exists for an individual customer, subject to cost support and price floor conditions. Verizon must also file quarterly with the Staff a proprietary report listing the names of customers with whom new ICB contracts have been executed, the services sold under each new contract, and competitive threat information.

Washington: Within Verizon Northwest’s filed exchanges (i.e., its ILEC territory) intrastate special access and private line services are provided under tariff, subject to traditional rate of return regulation by the Washington Commission. Outside of that area, private line and

special access services provided by Verizon Northwest are competitively classified and are provided under a price list, subject to minimal regulation. *See* RCW 80.36.330, Order No. 1 in Docket UT-040172 (2/11/04).

West Virginia: Intrastate special access service is regulated as a “Category I(b)” service under Verizon West Virginia’s Incentive Regulation Plan approved by the WV PSC in Case Nos. 00-0318-T-GI, *et al.* Rates for intrastate access services may not be increased during the term of the Incentive Regulation Plan (which expires on January 1, 2006), but may be restructured on a revenue neutral basis.

Digital Data Service (DDS) and DS1 high capacity intrastate private line services have been rate deregulated in accordance with W. Va. Code Section 24-2-3c, after a finding by the WV PSC in Case No. 04-0292-T-PC that those services were subject to workable competition. Intrastate analog channel private line service is a Category III(a) (Competitive) service under the IRP. It may be priced flexibly during the term of the IRP, but prices for that service remain subject to WV PSC regulation upon the IRP’s expiration.

Wisconsin: Special access and private line services are provided pursuant to tariff. Wis. Stat. §§ 196.219(2m), 196.196(3). Verizon’s intrastate access service rates may not exceed the Company’s interstate rates for similar access services. Wis. Stat. § 196.196(2).

C. Internet Services

8. *On page 61 of the Public Interest Statement, Verizon claims that its backbone is not comparable to MCI's, and that the combination of MCI's and Verizon's backbones therefore would not be anticompetitive.*

a. Separately for MCI and Verizon, provide the following information regarding the amount and type of traffic that traverses Verizon's and MCI's existing Internet backbones:

(1) The number, type, and size of the customers obtaining access to the Internet backbone.

RESPONSE TO SPECIFICATION 8.a.1:

Verizon's Internet backbone is used to carry the traffic of Verizon's own end-user customers. Verizon does not provide transit services that would enable other backbone providers to access Verizon's Internet backbone.

Table 8.A.1 provides, quarterly for 2004 and 2005, the number of the following types of end-user customer lines obtaining access to Verizon's Internet backbone: dial-up Internet access service, high-speed Internet access provided to residential customers over DSL (hereinafter "DSL - Consumer"), high-speed Internet access provided to business customers over DSL (hereinafter "DSL - Business"), and FiOS (Verizon's new Fiber-to-the-Premises service).⁵⁸

[Begin Confidential]

⁵⁸ Quarterly data for 1Q04 were not available for Verizon's dial-up Internet customers. Verizon's DSL customers in the former GTE territory also have been excluded from the totals, because **[Begin Confidential]**

[End

Confidential]

Table 8.A.1. Customer Lines Connected to Verizon's Internet Backbone					
	1Q04	2Q04	3Q04	4Q04	1Q05
Dial-Up					
DSL – Consumer					
DSL – Business					
FiOS					
<i>*See note 58.</i>					

[End Confidential]

Verizon does not in the ordinary course of business track the number of distinct customers associated with the customer lines provided to access Verizon's Internet backbone, and has no reliable method for converting line counts into distinct customers. Although there is likely to be close to a one-to-one correlation between the number of customer lines provided to residential customers and the number of residential customers, a single business customer may obtain multiple lines in multiple locations, all with different billing addresses.

With respect to dial-up services, Verizon provides service principally to mass-market customers, but does not distinguish between the type and size of such customers. With respect to DSL services, Verizon separately tracks data for residential and business services, but does not otherwise distinguish between type and size of customers. Verizon's business customers for DSL service vary greatly in size. The vast majority of FiOS customers are residences.

Verizon is unable to provide volumes of lines or customers for other types of dedicated circuits that customers use to access the Internet. The dedicated circuits that Verizon provides to

business customers for Internet connectivity can be and often are used for multiple additional services as well, including voice and non-Internet data services. Moreover, these lines can be used to access backbones other than Verizon's. In the ordinary course of business, Verizon does not track how the dedicated circuits that it provides are used, and therefore does not distinguish between dedicated circuits that connect to the Internet and those that are used to provide other services.

Verizon does not have any wholesale customers to which it provides access to its Internet backbone. As noted above, Verizon does not provide transit service to its backbone on a wholesale basis. In addition, Verizon's wholesale DSL and other wholesale dedicated Internet access customers do not use Verizon's Internet backbone. Although Verizon peers with a number of other Internet backbone providers, all of these peering arrangements are settlement-free, and are therefore not considered Verizon's "customers."

- (2) *The number and type of circuits provided by MCI or Verizon connecting those customers to the Internet backbone.*

RESPONSE TO SPECIFICATION 8.a.2:

As clarified by Commission Staff, Verizon is answering this question separately for the circuits used to connect customers from Verizon's POPs to its backbone (*i.e.*, "POP-side"), as well as the "line-side" connections that extend from the POPs to customer premises.

Line-Side. Verizon provides dial-up Internet access and DSL over standard voice-grade (*i.e.*, DSO) circuits. DSL uses the high-frequency portion of these lines, while dial-up uses the same low-frequency portion of the line used for ordinary voice calls. The number of DSL circuits that Verizon has activated to provide service is equal to the number of DSL customer lines provided in Table 8.A.1. The same is true for dial-up, with the caveat that a dial-up line is not necessarily used exclusively to connect to the Internet, and in all cases is not permanently connected to the Internet in the way that a dedicated connection is (*i.e.*, it's not "always on"). FiOS is provided over Verizon's new Fiber-to-the-Premises network.

As noted in response to specification 8.a.1, Verizon does not maintain data on the number of other dedicated customer lines (such as DS1 or DS3 lines) that it provides to customers that use those lines to access Verizon's Internet backbone. Verizon accordingly cannot identify the number and type of circuits associated with those lines. To further assist the Commission, however, Verizon is providing the total line-side capacity that Verizon has provisioned and activated to serve these dedicated customers, together with the comparable figures for dial-up and DSL, for purposes of comparison. These totals represent the amount of capacity that Verizon has provisioned at multiplexers and other similar equipment that provide connections

between dedicated circuits on one side, and Internet POPs on the other side. Table 8.A.2 provides these data quarterly for 2004 and 1Q05.⁵⁹ The amount of activated capacity corresponds to the total amount of capacity that is currently being used by Verizon's end-user customers. Verizon typically provisions more capacity than it activates to accommodate future growth in demand.

[Begin Confidential]

Table 8.A.2. Verizon's Line-Side Capacity (Mbps) for Different Types of Customer Lines that Connect to Verizon's Internet Backbone					
	1Q04	2Q04	3Q04	4Q04	1Q05
Dial-Up Total					
Dial-Up Activated					
DSL Total					
DSL Activated					
Other Dedicated Total					
Other Dedicated Activated					

[End Confidential]

POP-side. To connect customers from Verizon's POPs to Verizon's backbone, Verizon uses an ATM-based private virtual circuit in each LATA in which it has such customers. These private virtual circuits are shared by different types of Internet access customers, including dial-up, DSL, and other dedicated access. Table 8.A.3. provides, quarterly for 2004 and 1Q05, the number and type of circuits that Verizon has obtained to connect end-user customers to Verizon's Internet backbone. The totals here includes circuits that Verizon provisions for redundancy.

⁵⁹ In the former GTE territory, **[Begin Confidential]** **[End Confidential]** provides the connections between Verizon's dial-up connectivity customers and Verizon's backbone. Verizon does not know how much capacity **[Begin Confidential]** **[End Confidential]** provisions to establish those connections.

[Begin Confidential]

Table 8.A.3. Verizon's POP-Side Circuits For Customers that Connect to Verizon's Internet Backbone					
	1Q04	2Q04	3Q04	4Q04	1Q05
DS3					
OC3					
OC12					
OC48					
OC192					
Aggregate Bandwidth (Mbps)					

[End Confidential]

(3) Each person with which MCI or Verizon has a peering relationship, and indicate whether the peering is on a paid or settlement-free basis.

RESPONSE TO SPECIFICATION 8.a.3:

Table 8.A.4 provides a list of Verizon’s settlement-free peers as of the end of each quarter of 2004 and 1Q05. Verizon does not have any paid peering agreements.

[Begin Highly Confidential]

Table 8.A.4 Verizon’s Settlement-Free Peers					
	1Q04	2Q04	3Q04	4Q04	1Q05
Adelphia					
Cox					
Earthlink					
TimeWarner					
Limelight					
Cablevision					
SBC					
Cogent					
Wiltel					
Hurricane Electric					
Yahoo					
BellSouth					
Nlayer					
MSN					
Beyond the Network					
Telus					
Telefonica					
AOL					
Abovenet					
BellCanada					
Total Settlement-Free Peers					

[End Highly Confidential]

(4) The volume of traffic exchanged with each person with whom the carrier peers on a paid or settlement-free basis, listed separately by peering partner.

RESPONSE TO SPECIFICATION 8.a.4:

Tables 8.A.5 and 8.A.6 contain Verizon's response to this specification. Table 8.A.5 provides the peak rate of traffic that Verizon exchanged during the peak busy hour in each quarter of 2004 and 2005. This total was calculated by measuring the peak rate of traffic that was actually exchanged in a five-minute interval during the hour and day of the month with the greatest traffic volume, and then multiplying by twelve. In general, the amount of traffic that Verizon exchanges with each peer increases on a regular basis. Verizon does not track the cumulative amount of traffic that Verizon exchanges with each peer in the ordinary course of business, and has therefore provided the amount that Verizon exchanged during a peak busy hour in each quarter.

Table 8.A.6 provides the actual amount of traffic that Verizon exchanged for the week ending April 19, 2005. Verizon does not have comparable data for earlier periods available, because Verizon does not record actual traffic exchanged with its peers in the ordinary course of business. These data were obtained based on special study that recorded and measured the cumulative traffic exchanged with each peer during that week.

[Begin Highly Confidential]

Table 8.A.5. Peak Hourly Rate of Traffic Exchanged with Peers (Mbps)					
Peer	1Q04	2Q04	3Q04	4Q04	1Q05

Table 8.A.6. Actual Traffic Exchanged with Peers for Week Ending 04/19/05			
Peer	Volume of Traffic Exchanged (Terabytes)		
	Inbound	Outbound	Weekly Total

[End Highly Confidential]

- (5) *The volume of traffic exchanged on an aggregated basis and with each of the top 20 customers by revenue (i) for whom the carrier provides transit service, and (ii) who provide transit services to the carrier. Additionally, indicate what percentage of total revenues the top 10 customer comprise.*

RESPONSE TO SPECIFICATION 8.a.5:

As agreed by Commission staff, Verizon is answering this question by providing the amount of traffic that Verizon exchanges with carriers that provide transit service to Verizon. Verizon does not provide transit service to other backbone providers.

Tables 8.A.7 and 8.A.8 contain Verizon's response to this specification. Table 8.A.7 provides the amount of traffic that Verizon exchanged with each of the two providers from whom Verizon purchases transit service during the peak busy hour in each quarter of 2004 and 1Q05. This total was calculated by measuring the amount of traffic that was actually exchanged in a five-minute interval during the hour and day of the month with the greatest traffic volume, and then multiplying by twelve.

Table 8.A.8 provides the actual amount of traffic that Verizon exchanged with its two transit providers for the week ending April 19, 2005. Verizon does not have comparable data for earlier periods available, because Verizon does not record actual traffic exchanged with transit providers in the ordinary course of business. These data were obtained based on a special study that measured and recorded the cumulative traffic exchanged with each transit provider during that week.

[Begin Highly Confidential]

Table 8.A.7. Peak Rate of Traffic Delivered to Transit Providers (Mbps)					
Transit Provider	1Q04	2Q04	3Q04	4Q04	1Q05

Table 8.A.8. Traffic Delivered to Transit Providers for Week Ending 04/19/05			
Transit Provider	Volume of Traffic Delivered (Terabytes)		
	Inbound	Outbound	Weekly Total

[End Highly Confidential]

- (6) *The total number of routes announced or advertised on your Internet backbone network, and the number of IPv4 addresses associated with those routes.*

RESPONSE TO SPECIFICATION 8.a.6:

Table 8.A.7 contains the number of routes that Verizon announced or advertised on its Internet backbone, quarterly for 2004 and 1Q05. Three separate totals are provided: (1) the number of routes that Verizon announces to its peers; (2) the number of routes that Verizon announces to “full-table” customers; and (3) the number of routes that Verizon’s backbone routers announce to each other, internally within Verizon’s backbone network.

Routes announced to Verizon’s peers represent the routes needed for connectivity to Verizon’s customers and services on Verizon’s network (customers that advertise through Verizon). Because peers receive only on-net route advertisements from Verizon, they are able to send traffic only to on-net locations – that is, to Verizon’s customers. Full-table customers are networks with whom Verizon exchanges traffic using the Border Gateway Protocol.

Table 8.A.7. Routes Announced on Verizon’s Internet Backbone					
	1Q04	2Q04	3Q04	4Q04	1Q05
Routes announced to Peers	802	847	918	792	788
Routes announced to full-table customers	133,935	138,667	146,855	150,562	155,943
Routes announced internally between Verizon routers	[Begin Confidential]				[End Confidential]

As of May 20, 2005, there were a total of **[Begin Confidential]** **[End Confidential]** IPv4 addresses associated with the 875 routes that Verizon announced to peers as

of that date. The number of IPv4 addresses being advertised is not a meaningful measure of a backbone provider's size for multiple reasons: (1) not all of these addresses are actually in use;⁶⁰ (2) many of the announced addresses are not in Verizon-allocated IP-address blocks, but are provider-independent blocks that a customer may announce through two or more service providers; and (3) the number of addresses depends on an individual ISP's policies for aggregating addresses, which differ significantly among providers. Verizon does not maintain historical data regarding the number of IPv4 addresses associated with the routes that Verizon announces in the ordinary course of business. Verizon also does not have a reliable way to convert the number of announced routes to IPv4 addresses because aggregation policies constantly change over time.

⁶⁰ IPv4 addresses are similar to NPA-NXX codes in that a carrier may be assigned a full NPA-NXX block that supports 9,999 individual telephone numbers, but the carrier uses only a fraction of those at a given point in time.

- b. *With respect to Verizon, separately for each state where Verizon provides non-Tier 1 Internet backbone services: (1) identify Verizon's non-Tier 1 Internet backbone provider competitors; (2) provide Verizon's share of Internet backbone revenues, (3) provide the estimated revenue shares of Verizon's Internet backbone provider competitors, (4) provide Verizon's share of Internet backbone traffic, (5) provide the estimated shares of traffic of Verizon's Internet backbone provider competitors. With respect to MCI, separately for each state where MCI believes that Verizon provides non-Tier 1 Internet backbone services, respond to (1), (3), and (5) above. Provide an explanation of how the estimates in subsections (3) and (5) above were determined, including a summary of the underlying data utilized in preparing the estimates.*

RESPONSE TO SPECIFICATION 8.b:

As agreed by Commission staff, Verizon is not answering this question separately for each state.

(1) As explained in response to specification 8.a.1, Verizon uses its Internet backbone to carry the traffic of its own Internet access customers, and does not offer transit services to other backbone providers. Verizon has one of many competing Internet backbones used to carry end-users' Internet-bound traffic within its region. Although there is no precise way to distinguish between Tier 1 and non-Tier 1 providers, Verizon generally understands Tier 1 to refer to backbone providers that have large national or international networks and that exchange traffic settlement-free with all of their peers (that is, they do not pay any transit or other peering fees with any other backbone provider).

Verizon's peering partners are listed in response to specification 8.a.3. With the exception of AOL, none of Verizon's peering partners qualify as Tier 1 under this definition. These peering partners can therefore be considered non-Tier 1 Internet backbone provider competitors of Verizon. Verizon also views Tier 1 Internet backbone providers as competitors.

There may also be other Internet backbone providers that compete with Verizon but that do not qualify as Tier 1 and that do not peer with Verizon; Verizon does not maintain information about such providers in the ordinary course of business.

(2-5) Verizon is not able to estimate market shares of Internet backbone revenues or traffic, for either itself or competing providers, because Verizon does not have access to the backbone revenues and traffic of competing backbone providers. Only competing providers themselves have access to such information.

Verizon is aware of two third-party studies of Internet backbone market shares based on revenues and traffic. The Kende Reply declaration contains the results of a study performed by RHK of Internet traffic for the largest backbone providers.⁶¹ It provides traffic volumes for the top 7 carriers, and also provides total monthly Internet traffic in North America. Based on the total amount of monthly traffic as of year-end 2004, Verizon's Internet backbone traffic would represent approximately 2 percent of the total Internet traffic carried in North America.⁶²

Annex A to the Kende Declaration provided 2003 estimates from IDC of Internet backbone revenues and revenue-based market shares for ten Internet backbone providers. At least with respect to Verizon, however, those revenues are inflated vis-à-vis other backbone providers on the list. As the Kende Reply Declaration explains, the IDC figures appear to include revenues from the dedicated business lines that incumbent LECs such as Verizon sell to ISPs for ISPs to make connections between their POPs and the incumbent LECs' POPs, at which

⁶¹ See Kende Reply Decl. Exh. 2.

⁶² See *id.* ¶ 8.

point the incumbent LECs provide access to the Internet. Non-ILEC backbone providers do not typically provide these dedicated business line connections. Instead, MCI and other backbone providers typically provide transit services at Internet Exchange Points (IXPs) where the connection from an ISPs' POP to the backbone is provided by the owner of the IXP. Thus, the revenues that IDC includes for Verizon and MCI as "wholesale upstream transit IP revenue" are not for comparable services.⁶³

⁶³ See *id.* ¶¶ 12-13.

- c. *Separately for MCI and Verizon, provide any engineering capacity planning documents or marketing analyses that discuss the anticipated change in the number of transit customers and/or the volume of associated traffic for the years 2005 and 2006.*

RESPONSE TO SPECIFICATION 8.c:

Verizon does not provide transit service over its Internet backbone network. Verizon does purchase transit service from other Internet backbone providers as described in response to specification 8.a.

- d. *Paragraph 17 of the Lack/Pilgrim Declaration states that Verizon “has its own limited IP backbone network that rides on Verizon’s long distance network.” Provide further details about Verizon’s IP backbone network and clarify what it means that Verizon’s IP backbone network rides on its long distance network and discuss whether, when, and the extent to which Verizon’s efforts to convert its long distance network to packet-switching technology would expand its IP backbone.*

RESPONSE TO SPECIFICATION 8.d:

Verizon’s IP backbone network is comprised of fiber that Verizon’s leases from unaffiliated providers and electronics owned by Verizon. Additional detail about Verizon’s IP backbone network is shown on attached Exhibit 13.

Verizon’s IP backbone network rides on Verizon’s long distance network by using the same network components that are already part of Verizon’s long distance network, including those network components that are leased from unaffiliated providers. For example, OC192 links that interconnect routers in Verizon’s IP backbone network (and some OC48s) are provisioned over the Dense Wave Division Multiplexing (“DWDM”) network facilities in Verizon’s long distance network, including fiber leased from unaffiliated providers. Similarly, OC3s, OC12s and some OC48s that interconnect routers in Verizon’s IP backbone network are provisioned over Verizon’s SONET network facilities in Verizon’s long distance network, including fiber leased from unaffiliated providers.

- e. *Paragraph 18 of the Lack/Pilgrim Declaration states that Verizon expanded its IP backbone network outside of the Northeast and Mid-Atlantic regions last year by adding eight points of presence: (1) identify the states and/or cities where this expansion occurred and explain why Verizon pursued this expansion; and (2) provide Verizon's analyses and other planning documents (both those generated internally and by outside consultants) that discuss the rationale for this out of region expansion of Verizon's IP backbone network.*

RESPONSE TO SPECIFICATION 8.e:

The cities and states where Verizon expanded its IP backbone network last year by adding eight points of presence were: Chicago, IL; Atlanta, GA; Tampa, FL; Seattle, WA; Denver, CO; Dallas, TX; San Jose, CA; and Los Angeles, CA. Verizon pursued this expansion outside the Northeast and Mid-Atlantic service areas as part of its efforts to make its data services, such as IP-Virtual Private Network and Transport LAN Service, more attractive to large enterprise customers and to facilitate its efforts to serve enterprise customers' locations outside its core Northeast and Mid-Atlantic service areas.

f. Paragraph 2 of the Kende Declaration indicates that “based on the available data, its reasonable to assume that [Tier 1 providers] today includes at least MCI, AT&T, Level 3, Sprint, Qwest, and SAVVIS.” Provide the data supporting this claim.

RESPONSE TO SPECIFICATION 8.f:

As noted in response to specification 8.b above, there is no precise way to distinguish between Tier 1 and non-Tier 1 providers, but Verizon generally understands Tier 1 to refer to backbone providers that have large national or international networks and that exchange traffic settlement-free with all of their peers. Although Verizon understands from its experience in the industry that MCI, AT&T, Level 3, Sprint, Qwest, AOL, and SAVVIS all meet that criteria, it is not aware of data that determine that classification. Other backbone providers also may qualify as Tier 1 apart from those listed. For example, XO states that it is “one of only a few fully peered facilities-based Tier 1 backbone providers in the United States.”⁶⁴

Traffic volumes may also provide relevant evidence of the relative sizes of individual backbone providers. The Kende Reply declaration contains the results of a study performed by RHK of Internet traffic for the largest backbone providers.⁶⁵ Although RHK indicates that MCI ranks fourth among those seven providers in terms of traffic, it does not disclose the identities of the other backbone providers on the list.

⁶⁴ XO XO Carrier Dedicated Internet Access, at <http://www.xo.com/products/carrier/internet/dia/>.

⁶⁵ See Kende Reply Decl. Exh. 2.

9. *Describe the varying kinds of peering arrangements, interconnection agreements, or transit agreements that MCI and Verizon have with other Internet backbone providers. Explain the differences, if any, between private interconnection to a backbone versus interconnection at a public network access point (NAP) (e.g., the quality or capacity of interconnection, etc.).*

RESPONSE TO SPECIFICATION 9:

As noted in response to specification 8.a.3, Verizon currently has settlement-free peering arrangements with 20 backbone providers and no paid-peering arrangements. Verizon connects to five of its peering partners – Adelphia, Cox, Earthlink, Limelight, and Time Warner – through a shared switch located at a public exchange point. In these instances, Verizon and its peers each connect to different ports on the same switch, but there is no dedicated capacity between their various networks. Rather, each of the backbone networks connected to the switch share the same switch fabric or capacity. These switches are owned and managed by the operator of the public exchange point. Verizon connects to these five peering partners at eight different public exchange points, five of which are operated by Equinix, and three of which are operated by Switch & Data.

Verizon connects to its other 15 peering partners using direct connections, which also are made at public exchange points owned and operated by Equinix or Switch & Data. In these instances, a cross-connect is used to connect Verizon’s network directly to the network of its peer. Verizon also connects to its two transit providers in this manner. Verizon’s backbone does not interconnect with peers at any public network access points (NAPs).

Verizon has signed peering agreements with each of its peers. Exhibit 9.1 is a copy of Verizon's standard peering agreement. Verizon's agreements with individual peers may contain slight variations from this standard agreement.

Verizon has signed agreements with its two transit providers. These transit providers were selected through an RFP process. Exhibit 9.2 contains copies of these agreements.

Apart from the peering and transit agreements described above, Verizon does not have any other interconnection agreements with other Internet backbone providers.

10. Paragraph 3 of the Kende declaration states that Verizon is “primarily a customer of two of the larger Internet connectivity providers, has limited peering with such providers, and provides transit services to other [ISPs] only to a limited extent.”

- a. Identify the two large Internet connectivity providers from which Verizon purchases transit and specify the average volume of traffic Verizon exchanges under these two transit arrangements.

RESPONSE TO SPECIFICATION 10.a:

Verizon purchases transit services from two providers – Level 3 and Qwest. As of March 2005, Verizon had a total of [Begin Confidential] [End Confidential] of capacity connecting to Qwest, and [Begin Confidential] [End Confidential] of capacity connecting to Level 3.⁶⁶ Tables 8.A.7 and 8.A.8, which are part of Verizon’s response to specification 8.a.5, provides estimates of the average traffic volumes that Verizon exchanges with both Level 3 and Qwest.

⁶⁶ [Begin Confidential]

[End Confidential]

- b. *Explain in detail what is meant by “limited peering with such providers” and provide the average volume of traffic under these “limited peering” arrangements. Explain whether Verizon has settlement-free peering arrangements with any Internet backbone providers and describe Verizon’s plans to obtain settlement-free peering.*

RESPONSE TO SPECIFICATION 10.b:

The statement in the Kende declaration that Verizon “has limited peering with [Tier 1] providers refers to the fact that Verizon has settlement-free peering with only a limited number of peers who qualify as Tier 1, insofar as Verizon understands that term to apply to backbone providers who are settlement-free with all of their peers. As noted in response to specification 8.f above, AOL is the only one of Verizon’s peers who, to Verizon’s knowledge, qualifies as Tier 1 under this definition.

As noted in Verizon’s response to specification 8.a.3, Verizon has settlement-free peering with 20 different Internet backbone providers. Verizon’s response to specification 10.d describes its plans to obtain settlement-free peering.

- c. *List Verizon's annual payments to other Internet backbone providers by Internet backbone provider, separately for 2004 and year-to-date 2005.*

RESPONSE TO SPECIFICATION 10.c:

Table 9.C provides Verizon's annual payments to Level 3 and Qwest for transit service, separately for 2004 and 1Q05.

[Begin Highly Confidential]

Table 9.C. Verizon Payments to Transit Providers		
	2004	1Q05

[End Highly Confidential]

d. Describe Verizon's plans to obtain settlement-free peering. Identify the providers with which Verizon is negotiating peering agreements.

RESPONSE TO SPECIFICATION 10.d:

In general, Verizon is continually evaluating its relationship with its existing and potential future peers. Verizon regularly monitors Internet traffic to ensure that it is meeting the peering requirements of its peers, that these peers are meeting Verizon's requirements, and to determine whether there are other potential backbone providers with whom Verizon may be able to peer. Verizon is currently in negotiations with one other provider – **[Begin Highly Confidential]** **[End Highly Confidential]** – for settlement-free peering.

Verizon would ultimately like to be settlement-free with all of the Tier I backbone providers. In order to achieve this objective, Verizon would have to make considerable additional investment in its backbone, particularly in International facilities, and it does not currently have plans to make this investment.

- e. In accordance with Instruction 20.a, this specification applies only to MCI.*
- f. Specify the fees MCI and Verizon charge for transit, separately for 2004 and year-to-date 2005, and describe the competitive consequences associated with changes (decreases or increases) in such transit arrangement charge(s). Indicate whether MCI or Verizon assesses different transit charges for ISPs and comparable enterprise customers.*

RESPONSE TO SPECIFICATION 10.f:

Verizon does not provide transit services, and therefore does not have fees or charges for such a service.

11. Describe MCI's and Verizon's current policies, including any typical contractual requirements, for permitting unaffiliated Internet service providers to access that carrier's Internet backbone or other broadband transmission facilities or services (such as peering, transit, and xDSL).

RESPONSE TO SPECIFICATION 11:

Unaffiliated ISPs may access Verizon's Internet backbone or other broadband transmission facilities in several ways. First, they may enter into a settlement-free peering agreement with Verizon. Exhibit 11.1 contains Verizon's current peering policy.

Second, an ISP may purchase a retail broadband service (e.g., DSL, Frame Relay, or ATM) under tariff. These services can be purchased under Section 5 of Verizon Tariff F.C.C. No. 20, a copy of which is available on Verizon's website:

<https://retailgateway.bdi.gte.com:1490/>.

Third, an ISP can obtain certain broadband services pursuant to commercial agreements. A number of individual ISPs have already negotiated arrangements to obtain access to Verizon's new fiber-to-the-premises service, FiOS. Exhibit 11.2 contains a list of the ISPs who have signed commercial agreements to obtain access to FiOS together with the status of negotiations with other ISPs.

12. *In accordance with Instruction 20.a, this specification applies only to MCI.*

13. Separately for each state in which Verizon and MCI both own facilities used to provide Internet backbone services, and separately for Verizon and MCI, provide in the form of lists and network maps of sufficiently precise detail a description of each company's Internet backbone facilities, including the capacity of the lit or unlit fiber, and each NAP (whether active or inactive) controlled by Verizon or MCI. Identify and describe the partner(s), if any, for each NAP and their relative interests in the NAP and the relative amounts of traffic traversing the NAP.

RESPONSE TO SPECIFICATION 13:

Exhibit 13 contains maps and charts describing Verizon's Internet backbone network, including the capacity of the various routes on that network and other pertinent details. Verizon does not control any NAPs.

14. Paragraphs 3-6 of the Cerf Declaration identifies MCI's value-added Internet services but does not provide market share information for these Internet-related services. In addition, the Public Interest Statement references "other IP services" that Verizon provides but does not describe these offerings or provide market share information. Separately for Verizon and MCI:

- a. Identify and describe each type of Internet service and Internet-related product (excluding Internet backbone services) – e.g., broadband Internet access services, narrowband Internet access services, voice over IP services (VoIP) – provided by MCI and Verizon.

RESPONSE TO SPECIFICATION 14.a:

Verizon provides the following categories of Internet and Internet-related products and services: dedicated Internet access services (broadband), dial-up Internet access services (narrowband), voice over IP services (VoIP), as well as miscellaneous Internet-related services, such as web hosting, e-mail, security services, and its innovative new iobism service, which uses IP capabilities or features and therefore may be considered Internet-related. Exhibit 14.A lists and describes the Verizon services in each of these categories.

- b. *For each service identified in response to specification 14.a, using the Merger Guidelines methodology, define the relevant geographic market, identify the competitors within that geographic market, and calculate Verizon's, MCI's, and each competitor's market shares analyzed by subscribership and revenue.*

RESPONSE TO SPECIFICATION 14.b:

The Merger Guidelines define a geographic market as a “region such that a hypothetical monopolist that was the only present or future producer of the relevant product at locations in that region would profitably impose at least a ‘small but significant and nontransitory’ increase in price, holding constant the terms of sale for all products produced elsewhere.”⁶⁷ The Commission has recognized that the “relevant geographic market selected for analysis must reflect ‘the commercial realities of the industry.’”⁶⁸ The Commission also held that there is no need to delineate narrow geographic point markets where consumers “face[] the same competitive conditions.”⁶⁹

The following sets forth observable facts about head-to-head competition for each of the services identified in response to specification 14.a.⁷⁰

Narrowband Internet Access. The Commission has recognized that there are many major dial-up ISPs that provide dial-up Internet access “nationwide.”⁷¹ Such providers “include

⁶⁷ Merger Guidelines § 1.21.

⁶⁸ *Id.* (quoting *Arthur S. Langenderfer, Inc. v. S.E. Johnson Co.*, 917 F.2d 1413, 1421 (6th Cir. 1991) (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 336-37 (1962))).

⁶⁹ Memorandum Opinion and Order, *Applications of NYNEX Corp. and Bell Atlantic Corp. for Consent To Transfer Control of NYNEX Corp. and Its Subsidiaries*, 12 FCC Rcd 19985, ¶ 54 (1997); *MCI/WorldCom Order* ¶¶ 30, 166; see *LEC Classification Order* ¶¶ 66-67.

⁷⁰ The services grouped as “miscellaneous” in Exhibit 14.A are generally content-based or security services that are generally considered outside of the Commission’s regulatory jurisdiction, and accordingly are not analyzed here. In any event, it is beyond serious dispute that there are a vast number of competitors for these services, of which Verizon is no more than a very minor provider.

AOL, AT&T[] WorldNet, MSN, and EarthLink.”⁷² In addition, there are “thousands of other ISPs [that] offer service locally or regionally.”⁷³ There are no entry barriers preventing these regional or local ISPs from offering service on a broader geographic basis, however, and in general an ISP’s facilities can be located a considerable distance from its customer. As a result, the competitive choices for narrowband Internet access are effectively uniform throughout the country, and there is accordingly no need to delineate any narrower geographic markets under settled Commission precedent.⁷⁴

According to one analyst, there were approximately 37 million dial-up Internet subscribers nationwide as of year-end 2004.⁷⁵ By comparison, Verizon had fewer than 490,000 dial-up Internet subscribers as of that date. Although subscriber figures are not available for all narrowband ISPs, analysts estimate subscribership for the four largest providers as follows: AOL – 17.39 million; MSN – 6.87 million; EarthLink – 3.88 million; United Online – 3.1 million.⁷⁶ Verizon does not have (and is not aware of) data regarding revenues for narrowband Internet access providers; only the providers themselves have access to such data. AOL is likely to have

⁷¹ *AOL/Time Warner Merger Order* ¶ 63.

⁷² *Id.*

⁷³ *Id.*

⁷⁴ See, e.g., *LEC Classification Order* ¶¶ 66-67.

⁷⁵ See Jeffrey Halpern, et al., Bernstein Research Call, *U.S. Wireline: Is Move Downmarket Driving Bell DSL Growth?* at 4 (May 4, 2005).

⁷⁶ See Craig Moffett, et al., Bernstein Research Call, *Broadband Update: Broadband Trending Towards 100% of Internet Connections; Cable’s Share Advantage Narrowing*, Exh. 6 (Mar. 15, 2005); see also Jeffrey Halpern, et al., Bernstein Research Call, *U.S. Wireline: Is Move Downmarket Driving Bell DSL Growth?* at 3 (May 4, 2005) (the big four narrowband ISPs “account for about 85% of the dial-up subscriber base”).

a disproportionate share of revenues as compared to subscribers because it generally charges higher prices than other ISPs.

Broadband Internet Access for Mass-Market Consumers. The availability of the major competitive broadband alternatives is fairly uniform throughout Verizon’s region, and it is therefore unnecessary to analyze competition for narrower geographic markets under the Commission’s settled precedent.

Some broadband providers operate on a national scale. For example, DBS providers offer broadband service nationwide. Although cable operators operate local or regional networks, cable networks themselves are ubiquitous and virtually all of these networks have been upgraded for two-way broadband services.⁷⁷ Thus, consumers today have similar competitive choices regardless of their geographic location, even if the identity of the particular incumbent wireline carrier or cable company differs across location. In these circumstances, the Commission should treat the geographic market as national in scope, just as it has done for interexchange service.⁷⁸

Even if the Commission were to carve out geographic submarkets for broadband services, however, the result would be the same as if it analyzed the market on a national scale. Competitive alternatives are ubiquitously available, and are being used by a large and increasing number of consumers to satisfy their communications needs. That is especially true in Verizon’s service territory.

⁷⁷ See Hassett Decl. ¶¶ 30-44.

⁷⁸ See, e.g., *LEC Classification Order* ¶¶ 66-67; *Order, Motion of AT&T Corp. To Be Reclassified as a Non-Dominant Carrier*, 11 FCC Rcd 3271, ¶ 22 (1995) (“*AT&T Non-Dominance Order*”).

Most consumers throughout Verizon's region can obtain broadband service from a cable operator. Cable modem service is now available to nearly 95 percent of U.S. households.⁷⁹ As of year-end 2004, there were 19.2 million subscribers to cable modem service, and this total is expect to grow to more than 23 million by the end of 2005.⁸⁰

In addition to cable, broadband service is available from two DBS providers nationwide. Fixed wireless services also are available in a number of locations (particularly in the rural areas where there is most likely to be coverage gaps for DSL and cable), and a number of local municipalities are now planning to deploy broadband fixed wireless networks.⁸¹ Verizon Wireless and other wireless carriers are now in the process of rolling out mobile wireless broadband services; Verizon has already deployed these services in 32 markets,⁸² whereas other wireless carriers have deployed such services in at least seven markets with plans to deploy in

⁷⁹ See Hassett et al. Decl. ¶ 58; Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, 18 FCC Rcd 16978, ¶ 54 (2003) (subsequent history omitted).

⁸⁰ See Richard Bilotti, et al., Morgan Stanley, *Broadband Update: Competition Varies Dramatically Across Regions* at 11-12 & Exh. 17 (Apr. 15, 2005).

⁸¹ See Parks Associates, *Trends in U.S. Broadband Adoption* at 3-14 (2004) ("Parks Associates estimates that more than 2,200 wireless ISPs, including local utility companies, local cable companies, co-ops, small cellular carriers, CLECs, and independent WISPs are providing UBW services."); Eric Nee, *Municipalities Starting To Mesh*, CIO Insight (Mar. 22, 2005), at <http://www.cioinsight.com/article2/0,1397,1778668,00.asp> ("There is one area, however, where municipalities are breaking new technology ground – broadband wireless networks. Cities as diverse as Philadelphia, Las Vegas and Garland, Texas, are all experimenting with mesh, a new way of building wireless networks."); Dianah Neff, *Hands Off Our Wi-Fi Network!*, CNET News.com (Feb. 10, 2005), at http://news.com.com/Hands+off+our+Wi-Fi+network/2010-1071_3-5571655.html.

⁸² See Verizon Wireless, *Wireless Internet Broadband Access*, at <http://www.verizonwireless.com/b2c/mobileoptions/broadband/index.jsp>; Verizon Wireless News Release, *Verizon Wireless and Novatel Wireless Announce Availability of Next Generation Broadband Wireless PC Card for Verizon Wireless' 3G EV-DO Network* (Jan. 12, 2005).

many more.⁸³ DSL services also are available in many locations from a number of competitive providers, such as Covad, Earthlink, Speakeasy, and others.⁸⁴ Broadband over Power Line services are being deployed or tested in a number of geographic areas and are expected to become a widespread competitive alternative in the future.⁸⁵ Finally, Verizon and other competitive providers are deploying FTTH networks that provide an additional broadband alternative.⁸⁶

In terms of broadband subscribers, cable modem service is the market leader, accounting for more than 61 percent of residential and small business customers receiving download speeds of 200 Kbps and 83 percent of customers that receive more than 200 Kbps in both directions.⁸⁷

Cable alone now makes broadband access available to more than 90 percent of U.S. households,

⁸³ See Christopher M. Larsen, *et al.*, Prudential Equity Group, LLC, *Telecom Services: Wireless Broadband Channel Checks and Outlook* at 2 (June 28, 2004) (“Nextel is currently selling wireless broadband service in the Raleigh/Durham area”); Christopher M. Larsen, *et al.*, Prudential Equity Group, LLC, *Wireless Carriers Were More Active in February, But Rates Remained Relatively Flat* at 4 (Feb. 16, 2005) (Cingular offers UMTS service in six markets).

⁸⁴ See, e.g., Covad, *Residential Services*, at <http://www.covad.com/residential/index.shtml>; EarthLink, *EarthLink High Speed DSL Internet Service*, at <http://www.earthlink.com/dsl/>; Speakeasy, *Home Services*, at <http://www.speakeasy.net/home/>.

⁸⁵ See Jim Barthold, *Online Gaming with VoIP*, VON Magazine (Jan. 2005) (Current and Cinergy are offering BPL service commercially in Cincinnati, OH), available at http://www.vonmag.com/issue/2005/jan/features/broadband_over_power_lines.htm; Michael Brush, *The Next Big Thing in Web Access: Power Lines*, MSN Money (May 19, 2004) (noting commercial deployments in Cincinnati, OH, Allentown, PA and Raleigh, NC), available at <http://moneycentral.msn.com/content/P81685.asp>; Scott Cleland, Precursor, *Bells Fiber Deployment Plans Get Messier* (Nov. 10, 2004) (“We believe broadband over power lines (BPL) is now a technologically and economically viable third pipe into American homes to provide broadband and VoIP services in the years ahead.”).

⁸⁶ See CLECs, *Independent Telcos Lead Way in FTTH Rollouts*, TR Daily (May 10, 2005) (FTTH “is now available in about 400 communities in the U.S., with competitive local exchange carriers providing the infrastructure, either alone or in partnerships with developers, in nearly 40% of the locations, according to a study released today. Non-Bell incumbent telcos are close behind, deploying the fiber to about a third of the communities, while the Bells, which have only begun major FTTH investments in the past year, accounted for about a sixth of the rollouts.”).

⁸⁷ Hassett et al. Reply Decl. ¶ 38.

and at least 90 percent of the population in Verizon's top 50 MSAs.⁸⁸ As the Commission has recently acknowledged, any evaluation of competition within a given market must consider "the presence and the capacity of rival carriers in specific markets, rather than simply . . . their current subscriber market shares."⁸⁹ This is particularly true in a dynamic market like broadband, where new technologies are rapidly emerging.⁹⁰

A recent report from Morgan Stanley (attached as Exhibit 14.B.1) estimates broadband market share in Verizon's region, as well as in a number of Verizon states. Morgan Stanley estimates that Verizon's average share of broadband subscribers within its region is 27 percent, and that Verizon's share in a number of its major states is even lower (*e.g.*, New York, 23 percent; New Jersey and Maryland, 26 percent; and Virginia, 25 percent).⁹¹ Morgan Stanley does not, however, factor broadband services other than cable and DSL into its analysis. According to the Commission's data, other competitive broadband providers account for approximately 2-3 percent of mass-market broadband subscribers nationwide.⁹²

Broadband Internet Access for Business Customers. Business customers use various types of services interchangeably for Internet access depending on their needs, including ADSL,

⁸⁸ Hassett et al. Reply Decl. ¶ 58.

⁸⁹ *AT&T Wireless/Cingular Order* ¶ 185.

⁹⁰ See Jason B. Bazinet, *et al.*, Citigroup Smith Barney, *Cable: Voice Growth = Video Growth* at 7 (May 11, 2005) ("There are a number of emerging technologies - other than fiber - that could pose a long-term threat to the broadband market. This includes Wi-Max, Broadband over Power Lines (BPL) and wireless data (EV-DO). Although these technologies are still nascent, each one could emerge as a meaningful competitor to the DSL / cable modem duopoly.").

⁹¹ See Richard Bilotti, *et al.*, Morgan Stanley, *Broadband Update: Competition Varies Dramatically Across Regions* at 5, Exh. 5 (Apr. 15, 2005).

⁹² See Ind. Anal. & Tech. Div., WCB, FCC, *High-Speed Services for Internet Access: Status as of June 30, 2004*, at Table 3 (Dec. 2004).

SHDSL, ATM, Frame Relay, and Private Line. As with broadband Internet access for mass-market customers, the Commission does not need to define narrow geographic markets because there is extensive competition across all relevant geographic areas.

There is a wide range of competitive carriers that provide broadband Internet access services to business customers in Verizon's region. For example, as demonstrated in the carrier websites reproduced as Exhibit 6.D.3, competing carriers such as XO, Time Warner Telecom, Qwest, US LEC, and McLeodUSA provide Internet access to business customers using dedicated connections, ATM, and Frame Relay. Competing carriers such as Covad, Earthlink, XO, DSL.net, Speakeasy and New Edge Networks provide DSL services to business customers. As demonstrated in the Bruno et al. Reply Declaration, each of the nation's major cable operators now provides cable modem services to business customers in many geographic areas, as well as other kinds of broadband Internet access over fiber networks they have deployed in downtown areas.⁹³ Exhibit 14.B.2 contains a summary of these cable operator offerings.

As a general matter, Verizon lacks the information necessary to calculate the market shares of the various competitors that provide broadband services to business customers, either nationwide, or for the geographic categories requested in this specification. Only competing carriers themselves have access to the subscriber and revenue totals that would be needed to calculate market share on those bases.

Voice over Internet Protocol (VoIP) for Mass-Market Customers. VoIP is not a distinct product market, but is instead an alternative form of voice telephone service that may replace

⁹³ See Bruno et al. Reply Decl. ¶¶ 16-19; see also Bruno/Murphy Decl. ¶ 26.

traditional local exchange and long distance service.⁹⁴ But the unique capabilities of VoIP make it very different from traditional service from a geographic perspective. Because a VoIP provider does not need its own local facilities to connect to a customer's premises, but instead can use a customer's existing broadband connection, a VoIP provider can be located anywhere in the country (or the world). In fact, there are a number of major VoIP providers that offer service on a nationwide or near-nationwide basis, such as Vonage, Packet8, BroadVoice, and Lingo.⁹⁵ In addition, all major cable operators are in the process of deploying VoIP services, and analysts expect all the major cable companies to offer VoIP to nearly 100 percent of their cable homes passed over the next two to three years.⁹⁶ Although cable operators operate local or regional networks, cable networks themselves are ubiquitous.

In light of these facts, consumers will have similar competitive choices regardless of their geographic location, even if the identity of the particular cable company or VoIP provider differs across location. In these circumstances, the Commission should treat the geographic market as national in scope, consistent with its past precedent.⁹⁷ Even if the Commission were to carve out geographic submarkets for VoIP services, however, the result would be the same. Competitive alternatives are ubiquitously available, and are being used by a large and increasing number of consumers to satisfy their communications needs. That is especially true in Verizon's service territory.

⁹⁴ See Public Interest Statement at 10, 35-36; Hassett et al. Decl. ¶¶ 30-71.

⁹⁵ See Public Interest Statement at 36, 44-45; Hassett et al. Decl. ¶¶ 61-66.

⁹⁶ See Hassett et al. Reply Decl. ¶ 14.

⁹⁷ See, e.g., *LEC Classification Order* ¶¶ 66-67; *AT&T Non-Dominance Order* ¶ 22.

All of the major cable companies, and many smaller ones, have begun to offer VoIP services, including Time Warner, Cablevision, Cox, and Comcast.⁹⁸ This competition is particularly advanced in the areas where Verizon provides local telephone services.⁹⁹ According to analysts, “Verizon is the incumbent Bell in 79% of Cablevision’s territory, and 25% of Time Warner Cable’s [territory].”¹⁰⁰ These two cable companies “had 21.6M homes passed with VoIP as of the end of 2004, representing more than 90% of total homes passed by cable VoIP . . . had together acquired nearly 500K VoIP subscribers by year end 2004, and each was forecast to more than double its subscriber base in 2005.”¹⁰¹ Verizon estimates that cable companies already offer voice telephone service – either circuit-switched or VoIP – in markets that reach more than 23 million homes in Verizon’s service areas, and have announced that they will offer service on a much wider basis by the end of this year.¹⁰² In addition to these cable operators, Exhibit 14.B.3 contains a list of other VoIP providers that are offering service in Verizon’s region, including a description of their service offerings.

As a general matter, Verizon lacks the information necessary to calculate the market shares of the various competitors that provide broadband services, either nationwide, or for the geographic categories requested in this specification. Only competing carriers themselves have access to the subscriber and revenue totals that would be needed to calculate market share on

⁹⁸ See Public Interest Statement at 2, 39-41; Hassett et al. Decl. ¶¶ 30-44.

⁹⁹ See Hassett et al. Reply Decl. ¶ 19.

¹⁰⁰ Jeffrey Halpern, *et al.*, Bernstein Research Call, *US Telecom 1Q05 Review: Broadband, Wireless Growth Highlight Positives; Access Lines Start To Show VoIP Impact* at 3 (May 9, 2005).

¹⁰¹ *Id.*

¹⁰² See Hassett et al. Reply Decl. ¶¶ 17, 19.

those bases. Such an analysis also would have to take into account other intermodal and intramodal providers of voice telephony services, and Verizon does not have data regarding the full extent of these competitive alternatives. Moreover, as the Commission has recently acknowledged, any evaluation of competition within a given market must consider “the presence and the capacity of rival carriers in specific markets, rather than simply . . . their current subscriber market shares.”¹⁰³ This is particularly true given the rapid rate at which VoIP services are expected to grow.¹⁰⁴

As indicated in the Hassett et al. Reply Declaration, there are well over a million VoIP subscribers nationwide, with that total growing by tens of thousands each week.¹⁰⁵ With the exception of Cablevision (which provides service exclusively within Verizon’s region and currently serves more than 364,000 VoIP subscribers),¹⁰⁶ Verizon does not have the information to determine precisely how many VoIP subscribers are within its region. To the extent that VoIP providers report their subscriber totals or revenues, they typically report nationwide totals. The Hassett et al. Reply Declaration contains the latest reported totals for all the major VoIP providers.¹⁰⁷

¹⁰³ *Cingular Order* ¶ 185.

¹⁰⁴ *See* Public Interest Statement at 41; Crandall/Singer Decl. ¶ 31.

¹⁰⁵ *See* Hassett et al. Reply Decl. ¶¶ 20-21, 24, 41.

¹⁰⁶ *See* Cablevision Press Release, *Cablevision Systems Corporation Reports First Quarter 2005 Results* (May 5, 2005).

¹⁰⁷ *See* Hassett et al. Reply Decl. ¶¶ 20-24, 41.

- c. *Separately for each service identified in response to specification 14.a, and separately for each geographic market identified in response to request 14.b, identify: (1) the elements of its network that MCI or Verizon, respectively, lease from an unaffiliated provider to offer each Internet or Internet-related services; (2) the percentage of the total cost of providing each Internet or Internet-related service attributable to such leased element; and (3) the unaffiliated provider of each such element.*

RESPONSE TO SPECIFICATION 14.C:

Verizon does not have cost studies that identify the percentage of the total cost of providing each Internet or Internet-related service attributable to leased network elements. In order to respond to this specification, Verizon has prepared estimates of the percentage of total cost attributable to leased network elements for Verizon's Internet and Internet-related services. For purposes of these estimates, Verizon considered only those costs of providing the service that are recovered through recurring rates, such as monthly rates or usage rates. Any one time cost that Verizon amortizes for recovery through the recurring rate for the service, such as the optical terminating equipment for Verizon's FiOS Internet Access service, is included in the analysis as part of the total cost. Costs that may be recovered through a non-recurring charge, such as acquisition costs and truck rolls, were excluded from the analysis. In addition, Verizon has included costs of network elements provided by unaffiliated companies even where those elements are not necessarily "leased," but are obtained through another type of contractual arrangement. Where such contracts include the use of network elements and the provision of related services, it is not practical to separate the contractual costs between network elements and services.

To the extent Verizon's Internet and Internet-related services make use of Verizon's IP backbone, the costs of such usage cannot be causally related or attributed to individual services. The costs of Verizon's IP backbone network, including the costs of network elements in Verizon's IP backbone network that are leased from unaffiliated providers, have been excluded from Verizon's estimates in this response.

Verizon's dedicated Internet access services (broadband). For Verizon's FiOS and xDSL Internet Access service, Verizon uses Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates). For Verizon's xDSL Internet Access service, Verizon leases circuits from **[Begin Confidential]**

[End Confidential] for connectivity from ATM switches to Verizon's network, which accounts for **[Begin Confidential]** **[End Confidential]** percent of the total costs for this service. Verizon also leases circuits from **[Begin Confidential]**

[End Confidential] for wire center connectivity to the ATM switches for the DSL Internet Access service which accounts for **[Begin Confidential]**

[End Confidential] percent of the total costs for this service. In addition, Verizon leases circuits from **[Begin Confidential]** **[End Confidential]** for Data Center Network Connectivity for both Verizon's xDSL Internet Access services and dial-up Internet Access services, which accounts for **[Begin Confidential]** **[End Confidential]**

percent of total costs for these services. Verizon also leases circuits from **[Begin Confidential]**

[End Confidential] for wire center connectivity for both Verizon's xDSL Internet Access services and dial-up Internet access services, which accounts for **[Begin Confidential]** **[End Confidential]** percent of total costs for these services. For Verizon's ATM Internet Access service, Frame Relay Internet Access service and Private Line Internet Access service provided within the former Bell Atlantic service areas, Verizon uses Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates). For Verizon's ATM Internet Access service, Frame Relay Internet Access service and Private Line Internet Access service provided within the former GTE service areas, Verizon leases network elements used in providing these services from **[Begin Confidential]** **[End Confidential]**, which accounts for **[Begin Confidential]** **[End Confidential]** percent of total costs for these services. For Verizon's ISDN LAN Internet Access service (Dynamic IP), Verizon uses Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates). For Verizon's ISDN LAN Internet Access service (Static IP), Verizon leases network elements used in providing these services from **[Begin Confidential]** **[End Confidential]**, which accounts for **[Begin Confidential]** **[End Confidential]** percent of total costs for this service.

Verizon's dial-up Internet access services (narrowband). For Verizon's dial-up Internet Access service provided within the former Bell Atlantic service areas, Verizon uses Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates). For Verizon's dial-up Internet access services provided within the former GTE service areas, Verizon leases the network elements used to carry traffic for this service from **[Begin Confidential]** **[End Confidential]**. The leasing of network elements to carry traffic in the former GTE service areas accounts for **[Begin Confidential]** **[End Confidential]** percent of Verizon's total costs for these services. In addition, Verizon leases circuits from **[Begin Confidential]**

[End Confidential] for Data Center Network Connectivity for both Verizon's dial-up Internet Access services and xDSL Internet Access services, which accounts for **[Begin Confidential]** **[End Confidential]** percent of total costs for these services.

Verizon also leases circuits from **[Begin Confidential]**

[End Confidential] for wire center connectivity for both Verizon's dial-up Internet Access services and SDSL Internet Access services, which accounts for **[Begin Confidential]** **[End Confidential]** percent of total costs for these services. For Verizon's ISDN PRI Internet Access service, Verizon uses Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates). For Verizon's Internet Protocol Routing Service/CyberPOP, Verizon uses Verizon's

network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates).

Verizon's Voice over Internet Protocol (VoIP) services. For Verizon's Voicewing VoIP services, Verizon leases network elements used in providing VoIP services from three unaffiliated providers. **[Begin Confidential]** **[End Confidential]** provides the softswitch, IP transport, and media gateways, which account for about **[Begin Confidential]** **[End Confidential]** percent of total costs for this service. **[Begin Confidential]** **[End Confidential]** provides media gateways, transport, and connectivity to the Public Switched Telephone Network, which account for approximately **[Begin Confidential]** **[End Confidential]** percent of total costs for this service. **[Begin Confidential]** **[End Confidential]** provides 911 database services, which accounts for approximately **[Begin Confidential]** **[End Confidential]** percent of total costs for this service. For Verizon's Hosted VoIP VPN service and Hosted IP Communication services, Verizon uses only Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates).

Verizon's Miscellaneous Internet and Internet-related services. Most of Verizon's miscellaneous Internet-related services, such as domain name and security services, are provided either without network elements or using Verizon's network elements (including Verizon's IP backbone network which, as noted above, includes leased network elements that were not included in Verizon's cost estimates). The exceptions are: 1) for Verizon's iobism service, Verizon leases DS-3 circuits from **[Begin Confidential]** **[End Confidential]**,

which accounts for **[Begin Confidential]** **[End Confidential]** percent of total costs for this service; 2) for Verizon's Web Hosting services, Verizon leases network elements from **[Begin Confidential]** **[End Confidential]** for shared web-hosting space, which accounts for about **[Begin Confidential]** **[End Confidential]** percent of total costs for these services; and 3) for Verizon's Firewall services, Verizon leases network elements from **[Begin Confidential]** **[End Confidential]** for equipment and monitoring services, which account for about **[Begin Confidential]** **[End Confidential]** percent of total costs for these services.

D. Wholesale Interexchange Services

15. According to pages 30-31 of the Public Interest Statement, there are multiple competing longhaul providers besides MCI with substantial fiber networks, including AT&T, Sprint, Qwest, Level 3, Global Crossing/Frontier, and WilTel, among others.

- a. Using the Merger Guidelines methodology for defining geographic markets, explain what the proper geographic market is for longhaul service.

RESPONSE TO SPECIFICATION 15.a:

The Merger Guidelines define a geographic market as a “region such that a hypothetical monopolist that was the only present or future producer of the relevant product at locations in that region would profitably impose at least a ‘small but significant and nontransitory’ increase in price, holding constant the terms of sale for all products produced elsewhere.”¹⁰⁸ The Commission has recognized that the “relevant geographic market selected for analysis must reflect ‘the commercial realities of the industry.’”¹⁰⁹ The Commission also held that there is no need to delineate narrow geographic point markets where consumers “face[] the same competitive conditions.”¹¹⁰ Applying this framework, the Commission has previously held that the geographic market for wholesale long-distance service is national.¹¹¹

It is still appropriate for the Commission to treat wholesale longhaul services as a nationwide market, for the same reasons the Commission reached this conclusion in the past. In

¹⁰⁸ Merger Guidelines § 1.21.

¹⁰⁹ *Id.* (quoting *Arthur S. Langenderfer, Inc. v. S.E. Johnson Co.*, 917 F.2d 1413, 1421 (6th Cir. 1991) (quoting *Brown Shoe Co. v. United States*, 370 U.S. 294, 336-37 (1962))).

¹¹⁰ Memorandum Opinion and Order, *Applications of NYNEX Corp. and Bell Atlantic Corp. for Consent To Transfer Control of NYNEX Corp. and Its Subsidiaries*, 12 FCC Rcd 19985, ¶ 54 (1997); *MCI/WorldCom Order* ¶¶ 30, 166; see *LEC Classification Order* ¶¶ 66-67.

¹¹¹ See *MCI/WorldCom Order* ¶¶ 30, 67-76.

particular, customers of wholesale longhaul services nationwide face the same or similar multiple competitive options. Indeed, as demonstrated in response to specification 15.d, multiple carriers have deployed nationwide fiber networks and offer longhaul transport throughout the country. Verizon's experience as a purchaser of these services confirms the nationwide characteristics of this market. Verizon obtains longhaul capacity nationwide from a number of major suppliers that offer services on a nationwide basis.

- b. *For longhaul service provided to competitive LECs, interexchange carriers, and wireless providers, provide the revenues that MCI and Verizon billed and an estimate for each longhaul competitor identified in the Public Interest Statement, separately by the following geographic categories: (1) incumbent LEC franchise area and (2) the geographic market identified by the applicants in response to specification 14.a. Identify which geographic markets are within Verizon's region. Provide an explanation of how the estimate was determined, and provide supporting documentation. For purposes of this specification, revenues includes amounts received for handling foreign originated traffic if another carrier brings that traffic into the United States before handing the traffic off to the longhaul service provider.*

RESPONSE TO SPECIFICATION 15.b:

Verizon's response is contained in Exhibits 15.B.1 and 15.B.2. Exhibit 15.B.1 contains Verizon's revenues from providing longhaul services to Verizon Wireless, by month for 2004. Exhibit 15.B.2 contains Verizon's revenues from providing longhaul services to other carriers, by month for 2004 and separately by carrier. Both exhibits contain only nationwide revenues. Verizon does not track these revenues by state in the ordinary course of business. In addition, as explained above, the Commission has previously held that the longhaul market should be defined as nationwide in scope, and that approach should be followed here as well.

The overwhelming majority of the revenues contained in Exhibit 15.C.2 are from the provision of international services to carriers. Verizon does not track domestic longhaul voice wholesale revenues separately in the ordinary course of business.

- c. *For longhaul service provided to competitive LECs, IXC's, and wireless providers, provide the number of wholesale minutes for 2004 that MCI and Verizon wholesaled and an estimate for each longhaul competitor identified in the Public Interest Statement, separately by the following geographic categories: (1) incumbent LEC franchise area and (2) the geographic market identified by the applicants in response to specification 14.a above. Identify which geographic markets are within Verizon's region. Provide an explanation of how the estimate was determined, and provide supporting documentation.*

RESPONSE TO SPECIFICATION 15.c:

Verizon's response is contained in Exhibits 15.B.1 and 15.B.2. Exhibit 15.B.1 contains the longhaul minutes that Verizon provided to Verizon Wireless, by month for 2004. Exhibit 15.B.2 contains the longhaul minutes that Verizon provided to other carriers, by month for 2004 and separately by carrier. Both exhibits contain only nationwide minutes of use. Verizon does not track these minutes by state in the ordinary course of business. In addition, as explained above, the Commission has previously held that the longhaul market should be defined as nationwide in scope, and that approach should be followed here as well.

The overwhelming majority of the minutes contained in Exhibit 15.B.2 are from the provision of international services to carriers. Verizon does not track domestic longhaul minutes separately in the ordinary course of business.

- d. *Identify each state where, respectively, MCI, Verizon, and each longhaul competitor identified in the Public Interest Statement owns longhaul facilities. Explain whether MCI or any longhaul competitor offers longhaul services in state(s) where it does not own longhaul facilities, and if so, how it does so.*

RESPONSE TO SPECIFICATION 15.d:

Verizon does not own longhaul transport facilities, but instead leases these facilities from third parties, typically by obtaining an Indefeasible Right of Use (“IRU”).¹¹² Exhibit 13 (provided in response to specification 13) contains maps of Verizon’s leased longhaul facilities. The maps identify the states in which such facilities are located.

Verizon does not have detailed information that would enable it to determine where longhaul competitors operate facilities, or whether they own those facilities themselves or lease them from third parties. Only competing carriers themselves have access to that kind of information. In an effort to assist the Commission, however, Verizon has compiled information from public sources regarding competitors’ longhaul networks. Exhibit 15.D.1 contains maps regarding the longhaul networks of other longhaul competitors, based on these carriers’ websites and other public sources. The first map in this exhibit was prepared by an outside consultant, KMI Corporation, in May 2002. It depicts at least 17 distinct national fiber-optic longhaul networks, plus 26 additional regional networks, including those competitors identified in the Public Interest Statement. The subsequent maps were obtained from the following carriers’ websites and from Fiberloops.com (a “web-based wholesale telecom marketplace”): AT&T, Global Crossing, Level 3, Qwest, Sprint, WilTel, Adelphia (Telcove), Cox, Limelight, Time

¹¹² Verizon does own the electronics on the ends of these transport facilities.

Warner, Cablevision (Lightpath), SBC, Cogent, Hurricane Electric, BellSouth, Nlayer, Beyond the Network, Telus, AOL, AboveNet, Bell Canada, Broadwing, McLeodUSA, 360 Networks, and XO Communications.

Verizon does not have detailed information to determine whether these competitors are offering longhaul services in state(s) where they do not own longhaul facilities. Again, only competing carriers themselves have such information. Verizon itself offers longhaul services without owning longhaul facilities, and there is nothing unique about those arrangements that could not be duplicated by other providers.

16. *The Public Interest Statement, at pages 56-57, states that there are multiple wholesale long haul carriers and concludes that there is a “vibrant wholesale market for capacity.”*

- a. *Describe the plans of MCI and Verizon with respect to offering longhaul capacity, including with respect to offering wholesale minutes, if the merger is approved.*

RESPONSE TO SPECIFICATION 16.a:

Verizon and MCI have not conducted detailed merger integration planning and therefore have made no definitive plans in this or other respects. Consistent with the foregoing, however, Verizon generally intends to continue with MCI’s business plans. In particular, Verizon intends to honor MCI’s existing contracts to provide wholesale services, so there will be no disruption to any customer that today purchases wholesale service from MCI.

More generally, as the companies explained in the Application and accompanying materials, there are a number of competing providers in the market today offering wholesale long haul capacity and that will remain true after this transaction. Moreover, this is true both generally, and with respect to wholesale services offered to VoIP and other providers. Indeed, as explained in the Applications and Reply, cable and other VoIP providers today obtain wholesale longhaul services from numerous carriers other than MCI, including Level 3, Sprint, Teleglobe, and Global Crossing. Further, a growing number of VoIP providers, including cable companies such as Cablevision and Cox, use their own network facilities to provide VoIP service.

Given the competitive state of the market, all carriers with longhaul networks have strong business reasons to provide wholesale services in order to fill their networks with revenue-producing traffic. While a carrier would generally prefer to have the end user as its customer and collect the resulting retail revenues, it is a simple fact of life that, in a market such as this with

intense retail competition, carriers are going to lose customers to retail rivals. That being so, a carrier would rather collect revenue generated by having some of the wholesale traffic on its network than forfeit this revenue entirely because that traffic ended up on alternative facilities. That is particularly true given that carriers already are losing traffic to intermodal alternatives. That is why, for example, MCI currently sells wholesale long-distance capacity to wireless carriers, even though those carriers use that capacity to sell services that compete against MCI's retail long-distance services. This has long been true: when the long distance business was opened for competition, AT&T developed a wholesale offering for other long distance providers in order to keep as much long distance traffic as possible on its network rather than having traffic migrate to competing facilities.

17. According to page 5 of the Cerf Declaration, MCI Converged Cable Solutions wholesale product supports VoIP offerings of numerous cable operators, including transport and Class 5 switches.

- a. Separately for MCI and Verizon, describe the wholesale services and facilities provided by MCI or Verizon that enable a competitive LEC to provide local telephony to residential customers via traditional circuit switched technology or VoIP and a list of companies that purchase VoIP support from MCI.

RESPONSE TO SPECIFICATION 17.a:

Pursuant to interconnection agreements approved under Section 252 of the Act, Verizon makes available wholesale services and facilities that can enable a competitive LEC to provide local telephony to residential consumers. These wholesale services and facilities include unbundled network elements, telecommunications services for resale, interconnection facilities/trunks, collocation, transport and termination of local calls, directory listings, number portability, access to operations support systems, 911 access, pole attachments, conduit, and rights-of-way.

Pursuant to interstate and intrastate tariffs, Verizon makes available wholesale services and facilities that can enable a competitive LEC to provide local telephony to residential consumers. These wholesale services and facilities include unbundled network elements, telecommunications services for resale, collocation, DSL service, high-capacity transport services, and access services.

Pursuant to commercial agreements and other contractual arrangements, Verizon makes available wholesale services and facilities that can enable a competitive LEC to provide local telephony to residential consumers. These wholesale services and facilities include directory

assistance, operator services, UNE-P replacement service, line sharing replacement service, pole attachments, conduit, and rights-of-way.

- b. *For each independent LEC franchise area, provide (1) by competitive LEC, including cable operators, a description of the wholesale services and facilities MCI and Verizon provide to these carriers to enable these carriers to provide telephony services to residential customers; (2) revenues for these services; (3) an estimate of the total market for these services; (4) the names of five alternative providers for these wholesale services and facilities. Provide an explanation of the method used to provide the estimate and identify each geographic area within Verizon's region.*

RESPONSE TO SPECIFICATION 17.b:

(1) The wholesale services and facilities Verizon provides to competitive LECs in Verizon's incumbent LEC franchise areas are listed in response to specification 17.a.

(2) Information responsive to this request can be found in Exhibit 17.B. Exhibit 17.B does not contain revenues for pole attachments, conduit, and rights-of-way because Verizon does not track such revenues separately for competitive LECs.

(3) Verizon does not have the information necessary to determine the total market for wholesale services that can be used to provide telephony services to residential customers. However, cable and other VoIP providers today obtain wholesale services from numerous carriers, including Level 3, Sprint, Teleglobe, Global Crossing, Broadvox, Symmetric Broadband, Volo, RNK, CommPartners, Kancharla, Global Telecom, Nuvio, Pac-West and Covad. Further, a growing number of VoIP providers, including cable companies such as Cablevision and Cox, use their own network facilities to provide VoIP service. *See* Hassett et al. Reply Declaration ¶¶ 35-37; 44-56.

(4) Verizon does not have complete information on alternative providers of these wholesale services and facilities. Verizon is aware that wholesale VoIP services are provided by the following companies: Level 3, Sprint, Global Crossing, Covad, Pac-West, Volo, RNK,

CommPartners, Kancharla, New Global Telecom, Nuvio, Teleglobe, Symmetric Broadband, and Broadvox. In addition, pole attachments, conduit and rights-of-way are generally available from local utilities in each Verizon service area.

- c. *Describe the plans of MCI and Verizon with respect to the offering of MCI's Converged Cable Solutions if the merger is approved. Submit documents which describe these plans in the possession of MCI employees Claire Shields, James Myers, and Jarrett Appleby; and Verizon employees Michael Boches, David Small, Eric Bruno, and Claire Beth Nogay.*

RESPONSE TO SPECIFICATION 17.c:

Verizon and MCI have not conducted detailed integration planning and therefore have made no definitive plans with respect to MCI's Converged Cable Solutions or other matters. Consistent with the foregoing, however, Verizon generally intends to continue with MCI's business plans. In particular, Verizon intends to honor MCI's existing contracts to provide wholesale VoIP services, so there will be no disruption to any customer that today purchases wholesale service from MCI.

More generally, as the companies explained in the Application and Reply, as is true with respect to wholesale long haul services generally, there are a number of competing providers in the market today offering wholesale services to providers of VoIP and other services so that these providers would continue to have numerous competitors from which to choose. Cable and other VoIP providers today obtain wholesale VoIP services from numerous carriers other than MCI, including Level 3, Sprint, Tele globe, Global Crossing, Broadvox, Symmetric Broadband, Volo, RNK, CommPartners, Kancharla, Global Telecom, Nuvio, Pac-West and Covad. Further, a growing number of VoIP providers, including cable companies such as Cablevision and Cox, use their own technology and facilities to provide VoIP service. *See* Hassett et al. Reply Declaration ¶¶ 35-37; 44-56. *See also* Response to specification 16.a. above.

Any documents from files of the requested custodians that are responsive to this request have been produced.

- d. In accordance with Instruction 20.a, this specification applies only to MCI.*
- e. Submit any documents which discuss competition between MCI's Converge Cable Solutions product and Verizon's products in the possession of Michael Boches, David Small, Eric Bruno, and Claire Beth Nogay.*

RESPONSE TO SPECIFICATION 17.e:

Any documents from files of the requested custodians that are responsive to this request have been produced.

E. Residential and Small Business Services

18. According to pages 37-51 of the Public Interest Statement, the most significant competition for mass-market customers will come from facilities-based intermodal competitors that do not rely on the traditional will remain following the merger.

- a. For each Verizon franchise area provide: (1) the number of residential resold lines; (2) the number of residential UNE-P lines; (3) the number of residential UNE-L lines; (4) an estimate of the number of competitively deployed access lines used to serve residential customers by a competitive local exchange carrier (including, but not limited to, cable telephony providers) (i.e., using E-911 listings); (5) an estimate of the number of residential customers that exclusively subscribe to wireless service instead of wireline local exchange and long distance service; and (6) an estimate of the residential customers relying upon VoIP for all of their voice telecommunications needs. Of the residential customers identified in response to specification 18.a(5)-(6) identify the number of customers of MCI and Verizon. Provide an explanation of how the estimates for the responses to specification 18.a(4)-(6) were determined.

RESPONSE TO SPECIFICATION 18.a:

(1) Exhibit 18.A.1 provides the number of residential resold lines for each state in Verizon's franchise area, quarterly for 2004 and 1Q05.

(2) Exhibit 18.A.2 provides the number of residential UNE-P lines for each state in Verizon's franchise area, quarterly for 2004 and 1Q05.

(3) Exhibit 18.A.3 provides the number of residential UNE-L lines for each state in the former GTE serving areas, quarterly for 2004 and 1Q05. With respect to the former Bell Atlantic serving areas, Verizon does not maintain databases or other records that enable it to distinguish between UNE-L lines provided to residential customers and those provided to business customers.¹¹³ Exhibit 18.A.3 accordingly contains the total number of UNE-L lines

¹¹³ Verizon obtains information about whether an unbundled loop is residential or business in two different ways for the former GTE serving areas. First, competing carriers are required to indicate whether they intend to use the

(unbundled DS0 loops) in the former Bell Atlantic service areas. These are principally used by business customers.

(4) Exhibit 18.A.4 provides the number of E911 listings that competing carriers have obtained for each state in Verizon's franchise area, quarterly for 2004 and 1Q05.¹¹⁴ Each residential E911 listing that a competing carrier obtains represents a line that the carrier is serving in whole or in part using its own facilities, and in all cases using its own switch. Not all competing carriers that have deployed access lines used to serve residential customers necessarily have obtained an E911 listing for that line, however. For example, some VoIP providers may be providing IP-based telephony services to their subscribers without E911 functionality, and therefore may not have obtained an E911 listing. Thus, the number of E911 listings may understate the number of competitively deployed access lines used to serve residential customers. Based on public sources, Verizon estimates that cable operators have begun offering cable telephony services to at least 23 million homes within Verizon's region.¹¹⁵ Other VoIP providers, like Vonage, offer telephony services over any cable facilities that have been upgraded to provide cable modem services. Based on public sources, Verizon estimates that more than 90 percent of the households in its region can now obtain cable modem service.¹¹⁶

unbundled loop to serve a residential or business customer on the Local Service Request. Second, when a retail customer switches to a competing carrier using an unbundled loop, Verizon tracks whether the customer was a residential or business customer. Neither of these tracking devices exist in the former Bell Atlantic serving areas.

¹¹⁴ E911 data were not available for the following states: Arizona, Connecticut, Idaho, Michigan, Ohio, South Carolina, and Vermont. For these states, Verizon provided the totals of local numbers that competing carriers have ported to their own switches (*i.e.*, LNP data).

¹¹⁵ See Hassett et al. Reply Decl. ¶ 19.

¹¹⁶ See *id.* ¶ 38.

(5) As Verizon demonstrated in its Public Interest Statement and Reply Comments, independent analysts estimate that between 7-8 percent of the approximately 180 million wireless users nationwide subscribe exclusively to wireless service and have given up their wireline phone.¹¹⁷ Verizon does not maintain other information in the ordinary course of business that would enable it to calculate a comparable figure for Verizon's franchise areas alone, or otherwise to determine the number of residential customers that exclusively subscribe to wireless service instead of wireline local exchange and long distance service.

(6) As Verizon demonstrated in its Reply Comments, there are well over a million VoIP subscribers nationwide, with that total growing by tens of thousands each week.¹¹⁸ In general, VoIP providers do not provide a breakdown of the number of subscribers they have below the national level, and Verizon therefore does not have detailed information that would enable it to estimate the number of VoIP subscribers within its region. One major VoIP provider – Cablevision – provides services exclusively within Verizon's franchise area, and Cablevision now reports that it serves more than 364,000 VoIP subscribers.¹¹⁹ Verizon does not have detailed information to determine what percentage of VoIP subscribers have given up their traditional wireline phone, although various public sources indicate that the percentage is quite

¹¹⁷ See Public Interest Statement at 41-42; Hassett et al. Decl. ¶¶ 74-75; Reply Comments at 6, 53; Hassett et al. Reply Decl. ¶ 72.

¹¹⁸ See Hassett et al. Reply Decl. ¶¶ 20-21, 24, 41.

¹¹⁹ See Cablevision Press Release, *Cablevision Systems Corporation Reports First Quarter 2005 Results* (May 5, 2005).

high. For example, Vonage reports that approximately 55 percent of Vonage customers bring their old phone number when they sign up.¹²⁰

¹²⁰ See K. Griffin, Yankee Group, *Fighting Goliath: Can Alternative VoIP Providers Survive?* at 8 (Aug. 2004).

- b. *For each incumbent LEC franchise area, provide: (1) the number of residential presubscribed interstate carrier access lines regardless of whether MCI or Verizon is the residential customer's local exchange carrier; (2) the number of residential originating intrastate toll minutes and originating domestic interstate toll minutes, separately for MCI, Verizon, and an estimate for all minutes; (3) total revenues for intrastate toll and domestic interstate toll services provided to residential customers separately for MCI, Verizon, and an estimate for all revenues; and (4) the total number of residential access lines for which MCI or Verizon is a local exchange carrier, and the number of these lines for which the presubscribed interstate long distance carrier is MCI, Verizon, AT&T, SBC, Sprint, BellSouth, Qwest, or another long distance carrier.*

RESPONSE TO SPECIFICATION 18.b:

As described below, Exhibits 18.A.1-18.A.4 contain Verizon's response to this specification. These exhibits provide data regarding long-distance usage on Verizon's wireline network. These data accordingly do not account for the many other ways that customers are able to obtain long-distance service today, including intermodal sources such as cable, wireless, and VoIP. To the extent the Commission seeks to use the data here to conduct a market-share analysis, these competitive alternatives would have to be included for the analysis to be meaningful.

(1) Exhibit 18.B.1 provides, quarterly for 2004 and 1Q05, the number of Verizon's residential presubscribed interstate carrier access lines for each state in Verizon's franchise area, regardless of who the customer's local exchange carrier is for those lines.

(2) Exhibit 18.B.2 provides, quarterly for 2004 and 1Q05, the number of residential originating intrastate toll minutes and originating domestic interstate toll minutes provided by Verizon Long Distance, for each state in Verizon's franchise area.

(3) Exhibit 18.B.3 provides, quarterly for 2004 and 1Q05, Verizon's total revenues for intrastate toll and domestic interstate toll services provided to residential customers, for each state in Verizon's franchise area.

(4) Exhibit 18.B.4 provides the total number of residential access lines for which Verizon is the local exchange carrier and that are presubscribed to MCI, Verizon, AT&T, SBC, Sprint, BellSouth, Qwest, or another long distance carrier. These data are provided for 4Q03, 4Q04, and 1Q05; quarterly data for 1Q04-3Q04 are not available. These data are not available by state.

- c. *For each state in which Verizon operates as an incumbent LEC, describe the state regulation, if any, that applies to a residential local and long distance service bundle.*

RESPONSE TO SPECIFICATION 18.c:

Arizona: There are no specific requirements or restrictions on combining services in Arizona. Bundles must be tariffed. In addition, the ILEC must provide the Commission with price floor calculations for local exchange and long distance services to ensure the avoidance of anti-competitive pricing practices. If the ILEC introduces a new local exchange service or long distance service, or proposes to change the rate for an existing local exchange service or long distance service, the ILEC must provide to the Commission information showing that the proposed rate equals or exceeds a price floor calculation for that service. *See* Rule R14-2-1310.

California: Both residential local service and intrastate long distance are tariffed services subject to regulation by the California PUC. Each intrastate service included in a bundle is subject to a price floor, which represents the cost associated with providing the service. Price floors must be approved by the PUC. The ILEC must offer the intrastate services that are part of a bundle on a stand-alone basis at authorized tariff rates.

Section 2898 of the California Public Utilities Code provides:

“(a) Every incumbent local exchange carrier and competitive local exchange carrier shall provide, upon request and without charge, to customers electing to purchase any service package that includes both local and long-distance service, or for customers that buy a set number of minutes for a fixed price, a breakdown

showing the total minutes of use in the billing period listed under one telephone number for toll and long-distance service.

“(b) This section shall remain in effect only until January 1, 2007, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2007, deletes or extends that date.”

Verizon also is subject to a variety of other statutes that have been applied to bundled service offers. For example, Public Utilities Codes section 2896 requires telephone corporations to provide customer s with “[s]ufficient information upon which to make informed choices among telecommunications services and providers. This includes, but is not limited to, information regarding the provider's identity, service options, pricing, and terms and conditions of service.”

Connecticut: There are no state rules or regulations specifically addressing bundles of residential local and long distance service. Individual telecommunications services that are included in bundles, like all Connecticut telecommunications services, are regulated based on whether they are classified as “competitive,” “emerging competitive,” or “non-competitive” services pursuant to section 16-247f of the Connecticut General Statute.

Certain notification requirements may apply to changes in service bundles, however. Section 16-256k of the Connecticut General requires that each telephone company “clearly and conspicuously disclose, in writing, to customers, upon subscription and annually thereafter, (1) whether the removal or change in any telecommunications service will result in the loss of a

discount or other change in the rate charged for any telecommunications service subscribed to or used by the customer...”

Delaware: Bundled local and long distance service packages are provided pursuant to the Delaware Discretionary Guide. *See* Guide for Detariffed Services Discretionary, Section 30M).

Discretionary service prices must equal or exceed incremental cost and may not be increased by more than 15% per calendar year. Discretionary service rates are also subject to imputation requirements, and any cross-subsidization of discretionary services with revenue generated by basic services is prohibited. Prices for discretionary services must be filed with the Commission and made available for public inspection. *See* 26 Del. C. § 708 (a) - (b). The local service in these packages and any intraLATA toll service is provided by Verizon Delaware. Verizon Long Distance provides all other toll services in these packages.

District of Columbia: There are no specific DC Public Service Commission regulations applicable to bundles of residential local and long distance service. Changes to a regulated service included in a bundle are subject to approval by the DC PSC, and rates for regulated services included in a bundle must conform to the Price Cap Plan. *See* Order No. 13370, Formal Case No. 1005, *In the Matter of Verizon Washington, DC Inc.'s Price Cap Plan 2004 for the Provision of Local Telecommunications Services in the District of Columbia* (Sept. 9, 2004).

Florida: There are no specific rules that address the bundling of voice services. However, the Florida PSC has continuing regulatory oversight of non-basic services for purposes of ensuring resolution of service complaints, preventing cross-subsidization of nonbasic services

with revenues from basic services, and ensuring that all providers are treated fairly in the telecommunications market. The cost standard for determining cross-subsidization is whether the total revenue from a nonbasic service is less than the total long-run incremental cost of the service. Section 364.051(5)(b), Florida Statutes.

Idaho: Residential service and bundles of services that include residential service are regulated under rate of return regulation. However, under new legislation, beginning July 1, 2005, telecommunication providers may elect to deregulate any or all of their intrastate regulated services. There is a 10% cap on basic rate increases during a three-year transition period, and the company cannot force customers to subscribe to a bundle in order to obtain basic local service. Residential bundles will have complete pricing flexibility. House Bill 224, *amending* Idaho Code 62-604, -605, and -617 and adding 62-607A, -616A, and -622A.

Illinois: There is no state regulation that specifically addresses bundled services. The Verizon ILEC tariffed the regulated portion of the bundle, including the access line, vertical features, and usage, in the local tariff, accompanied by the usual LRSIC cost support. Verizon Select Services Inc. tariffed the flat rate intrastate long distance piece of the bundle in its tariffs. The two pieces are then marketed together under the Freedom name at a price that is the sum of the two rates.

Indiana: Under the Alternative Regulatory Plan that became effective in August 2004, there are three tiers of regulation, with Tier 1 being the most regulated (basic service) and Tier 3 being the least regulated. Bundles and packages are classified as Tier 3 services, and prices can be increased on one day's notice to the Commission. Notice of price increases must be provided

to customers in the bill where the rate change becomes effective. Prices can be decreased on the same basis with a showing that prices equal or exceed TSLRIC + 10%. When more than one regulated service offered by Verizon is part of the bundle, the cost floor requirement can be met on either an individual or aggregate basis. If the bundle includes single line residential basic exchange service, Verizon may use the basic local exchange rate in Verizon's local tariff in lieu of the TSLRIC for basic local service.

Maine: Under Maine's interim Alternative Form of Regulation plan, bundles of residential and intrastate long distance services must be tariffed. Verizon has pricing flexibility for the packages subject to covering the cost (TSLRIC) of the offering. The statute requires advance customer notification of toll rate increases and changes to terms and conditions.

An IXC must provide each of its customers at least 25 days written notice of any price increase or any change in terms and conditions for any service provided by the IXC before the increase or change may take effect. *See* 35-A M.R.S.A. § 7307.

Massachusetts: Bundles of residential and long distance service may be priced in response to market conditions, subject to a price floor requirement designed to prevent a "price squeeze." *Investigation by the Department of Telecommunications and Energy on its own Motion into the Appropriate Regulatory Plan to succeed Price Cap Regulation for Verizon New England, Inc.*, D.T.E. 01-31 Phase II (April 11, 2003) at 37.

Maryland: There are no specific regulations relating to bundles of services. Services included in bundles are regulated (or not) in the same way as when offered on a stand-alone basis. Both local and intrastate long distance services are regulated by the Maryland Public

Service Commission. Tariffs and cost support are required. Verizon's bundled local and long distance Freedom Plan combines the Local Package offering filed in the Verizon Maryland tariff with a long distance calling plan filed in the Long Distance tariff.

Michigan: There are no specific regulations relating to bundled services. The portion of the service that is basic local exchange service is regulated under a cost-based regulatory model that prohibits pricing below the cost of providing the service. Those portions of residential bundles that are vertical services, long distance, DSL or Direct TV are unregulated by the Michigan PSC.

Nevada: There are no specific rules on bundling services as long as the regulated services are tariffed and can be purchased individually. Nev. Rev. Stat. 704.68964 (4). Each of the regulated components of a package of services remains subject to the existing regulations governing that stand-alone service.

New Hampshire: There are no specific regulations relating to bundles of services. Local and intrastate toll services that might be offered as part of a service bundle are tariffed and regulated by the NH PUC under rate of return regulation. A filing package for the jurisdictionally intrastate services in the bundle is required including service description, cost support (including a price floor test) and three-year revenue and demand forecasts (if available). Verizon must file a public notice of any tariff filing in a statewide newspaper of general circulation, to be published prior to the effective date of the proposed tariff. If the filing involves a rate increase, customer notices are required.

New Jersey: The provision of residential bundles by an ILEC such as Verizon New Jersey is subject to rules and regulations of the New Jersey Board of Public Utilities governing competitive services (discussed below). Additionally, the portion of long distance service bundles containing state-tariffed services is also regulated by the Board (i.e., local and/or intraLATA toll services that are classified as rate regulated services or services that the Board has deemed competitive services).

Under packaging and discounting rules established June 30, 1994 as part of a Board Order Approving Settlement, I/M/O the Petitions of Sprint, MCI and AT&T for Authorization of IntraLATA Competition and Elimination of IntraLATA Compensation, Docket Nos. TX90050349, TE92111047, TE93060211 (June 30, 1994) (“10 XXX Settlement”), Verizon New Jersey is allowed to offer residential bundles or packages. Filings for bundles follow the competitive services rules. Competitive services rules require informational tariffs to be filed with the Board, but Board approval of the tariffs is not required, and the Board does not regulate the price or terms and conditions of competitive services. The rate a LEC charges for a competitive service, however, must exceed the rate charged for any noncompetitive service used by the LEC to provide the competitive service.

New York: A separate tariff would generally be required for any regulated intrastate service that is offered by Verizon NY as part of a bundle at a different price, or under different terms and conditions, than those applicable to the service when offered on a stand-alone basis. Such tariffs for bundled services would be subject to the same New York Public Service Commission supervisory powers as other tariffed offerings. These include the New York PSC’s

ability to disapprove tariff changes or suspend them for investigation, to set temporary rates in appropriate circumstances, and to initiate proceedings to consider whether Verizon should be required to change its tariffs. (*See, e.g.*, New York Public Service Law §§ 92, 97.) The New York PSC has wide discretion to determine whether particular rates, terms, and conditions are “just and reasonable.”

North Carolina: Verizon North Carolina has full pricing flexibility for residential service bundles as long as the overall rate is not less than the sum of the tariffed rates for the regulated components. Changes in rates may be made on one day’s notice (if the discount applies to non-regulated services) or five days notice (if the discount applies to regulated services). NCGS Section 62-133.5(f).

Residential local service and long distance or other non-regulated services can be bundled and offered without the requirement to file tariffs. The North Carolina Commission requires that these offerings be made available to Lifeline customers. At this time, Verizon has not elected to provide service bundles or packages to customers in North Carolina.

Ohio: Residential and Long Distance Service Bundles are governed under the PUCO retail service rules - Ohio Administrative Code section 4901:1-6-21. All packages of regulated service must be tariffed whether or not they are offered in conjunction with unregulated services. The LEC is required to clearly identify the regulated services within the package. The total price of any bundled service package need not match the total of the services’ individual prices, but must cover the long run service incremental cost of regulated services included in the bundled package. Each regulated telecommunication service offered as a component of a service package

by a LEC must be individually tariffed in the LEC's tariff. The regulated components of a package of services remain subject to all of the service standards and other consumer protection provisions governing slamming, cramming, and fairness in billing that govern the stand-alone service.

Oregon: There are no specific regulations relating to the bundling of services. Residential services and features are currently regulated under rate of return regulation in Oregon. IntraLATA toll is classified as competitive and is permitted downward and upward pricing flexibility and the ability to change rates effective upon filing. *See* ORS 759.030; Order No. 02-359 in docket UD 13 (5/31/02).

Pennsylvania: In Pennsylvania, Verizon's bundled local and long distance services are classified as competitive services. *See* Pa. P.U.C. –No. 500, Section 35E. Prices for competitive services must be set at or above costs. *See* Bell Atlantic – Pennsylvania Inc.'s Alternative Regulation Plan (Docket No. P-00930715) Part 2-B. Verizon must provide at least 30 days notice to customers of any rate increase. *See* 52 Pa. Code §53.31 to §53.45. The local service in these packages and any intraLATA toll service is provided by Verizon Pennsylvania. Verizon Long Distance provides all other toll services in these packages.

Bundled local and long distance service packages are not currently offered in Verizon North.

Rhode Island: Prices for residential and long distance bundles (i.e., Freedom Plans) are allowed to increase or decrease in response to market conditions, provided that the prices are at or above the long-run incremental cost of providing the service.

South Carolina: A bundle is defined as linking any two or more regulated or non-regulated services. Residential service is a basic service for which prices can be increased once every 12 months by the annual inflation index. However, tariffed services that are a part of an advertised bundle are deregulated and must be offered at rates, terms, or conditions that are different than if the services are purchased separately from the LEC's tariffed offerings. S.C. Code Ann. Section 58-9-285 (A) (1) (a) (i) 1976 Code. The term “advertised” was incorporated in the legislation to exclude tariffed services that were a part of bundles in existence at the time the law was adopted from the deregulated classification that would apply to any tariffed services that are part of future bundles. Each company must advertise bundled services in order for the tariffed services that are part of the bundle to be considered deregulated.

Texas: Pricing flexibility is allowed for the packaging of basic services, which includes residential service, with any other regulated or unregulated service or any service of an affiliate. *See* State of Texas Public Utility Regulatory Act, Section 58.0584 - Pricing and Packaging Flexibility; Customer Promotional Offerings. An Informational Notice of the package must be filed with the Public Utility Commission of Texas on 10 days notice. *See* Public Utility Commission of Texas, Chapter 26 Substantive Rules Applicable to Telecommunications Service Providers, Subchapter J - Costs, Rates and Tariffs, Section 26.227 - Procedures Applicable to Nonbasic Services and Pricing Flexibility for Basic and Nonbasic Services for Chapter 58 Electing Companies. The rate charged must be above the sum of the current tariffed rate (or LRIC) of the basic service component(s) plus the LRIC of the regulated nonbasic service components plus the transfer cost of the affiliate service(s) included in the package. If an

affiliate service , such as interstate long distance, is a component of a package offering, an affidavit must be provided stating that the rate for the package of services covers the cost of the package, including the transfer cost to the ILEC of the affiliate service(s). *Id.*

Vermont: Verizon Vermont is operating under an Alternative Form of Regulation that expires this year. Proceedings are currently in progress in Vermont Docket No. 6959 for a second generation Alternative Form of Regulation. The final order is expected in September 2005 and is expected to be retroactive to July 1, 2005.

Currently, residential and intrastate long distance services, and bundles of those services, are provided in accordance with the Vermont Public Service Board Tariff No. 20. Verizon Vermont may not raise prices for services that were in effect at the time of the current Alternative Form of Regulation order, entered March 24, 2000. However, when an existing service is combined with a new service type, it is considered a “new” service. Any new service may be introduced without Vermont Public Service Board review, as long as Verizon Vermont passes a required price floor analysis.

Virginia: Bundles of residential and long distance service offered by Verizon Virginia and Verizon South are regulated as competitive services pursuant to Verizon’s Regulatory Plan, and are tariffed in General Services Tariff, Va.-No. 203, Section 31 and Bundled Services – General Customer Services Tariff, Section 16. Bundles of services are subject to a price floor which is the sum of (i) the lowest-priced combination of any service components that can be used to provide the service, plus (ii) any direct incremental costs of other components of the retail service. Where other carriers reasonably can either self-provision service components or

obtain them from other commercial suppliers, the price floor calculation only needs to reflect the company's direct incremental cost for such service components..

Washington: Verizon Northwest's residential service is provided under tariff, subject to traditional rate of return regulation. Verizon Northwest's and Verizon Long Distance's long distance services are provided through competitive price lists. *See* RCW 80.36.330, First Supplemental Order in docket UT-970767 (9/29/97). Bundled local and long distance offerings have been provided by combining the local service in Verizon Northwest's tariff and the long distance service in Verizon Long Distance's state and interstate price lists.

West Virginia: Verizon WV's bundled calling plans are listed as Category III(a) (Competitive) services. They therefore may be flexibly priced during the term of the Incentive Regulation Plan approved by the WV PSC in Case Nos. 00-0318-T-GI, *et al.*, which expires on January 1, 2006.

The WV PSC's *Rules and Regulations for the Government of Telephone Utilities* ("WV PSC Telephone Rules"), 150 W. Va. C.S.R. Series 6, include restrictions against disconnecting basic service for nonpayment of long distance, non-basic or non-telecommunications services. W. Va. C.S.R. Section 150-6-2.4.e. The WV PSC Telephone Rules also require WV PSC approval prior to billing non-telecommunications services on a telephone bill. W. Va. C.S.R. Section 150-6-2.1.a.1.

Wisconsin: In Wisconsin, any regulated services included in a bundled offering must also be available on a stand-alone basis under tariff under the same rates, terms and conditions. The price of any regulated component of a package or bundle need not equal its stand-alone

price; but must exceed the TSLRIC and imputation (if applicable) floors set out in WIS. STAT. § 196.204(5) & (6). Any discount available to the customer for purchase of a bundle may only apply to the non-regulated components of the bundle, *i.e.*, the packages of regulated services included in the bundle may not be discounted from their tariffed prices.

Although basic local exchange service is price regulated when offered on a stand-alone basis, it is not price regulated when it is included in a package, but it must be offered pursuant to tariff. Intrastate toll services are no longer subject to price caps, but must be offered on non-discriminatory terms and conditions. WIS. STAT. § 196.196(3).

- d. For each incumbent LEC franchise area, state separately for MCI and Verizon the number of residential customers that subscribe to a combined local and interexchange plan at a flat monthly rate, separately for plans with unlimited interexchange minutes and plans with a bucket of interexchange minutes.*

RESPONSE TO SPECIFICATION 18.d:

Exhibit 18.D provides the number of Verizon's residential customers that subscribe to a combined local and interexchange plan at a flat monthly rate. Verizon offers only a single flat-rate plan for combined local and interexchange service, and this plan offers unlimited interexchange minutes. Verizon does not offer any combined local and interexchange plans at a flat monthly rate that include a bucket of interexchange minutes.

Within Verizon's franchise area, there are many other competitive providers that also provide combined local and interexchange plans at a flat monthly rate, including intermodal providers such as cable, wireless, and VoIP. To the extent the Commission seeks to use the data here to conduct a market-share analysis, these competitive alternatives would have to be included for the analysis to be meaningful.

19. According to page 47 of the Public Interest Statement, “MCI’s participation in the mass market will consist largely of serving its dwindling legacy customer base and managing its decline as a provider of mass market services.” Describe Verizon’s plans with respect to residential customers that currently subscribe to MCI’s services outside of Verizon’s region if the merger is approved. Provide documentation to support the response.

RESPONSE TO SPECIFICATION 19:

Verizon and MCI have not conducted detailed merger integration planning and therefore have made no definitive plans with respect to “residential customers that currently subscribe to MCI’s services outside of Verizon’s region if the merger is approved” or other matters.

Moreover, it should be noted that MCI has stated (see Huyard Decl.) that its consumer business is in a state of irreversible decline. Consistent with the foregoing, however, Verizon generally intends to continue to manage the decline of this business outside of Verizon’s operating territory consistent with MCI’s business plans.

- a. *Explain how the merged entity would comply with applicable rate integration and geographic rate averaging requirements of section 254 if the merger is approved.*

RESPONSE TO SPECIFICATION 19.a:

Verizon and MCI have not conducted detailed merger integration planning and therefore have made no definitive plans in this or other respects. Verizon recognizes that, if the merger is approved, it will be required to reconcile the various interexchange rate plans currently offered by Verizon and MCI to bring them into compliance with the applicable rate integration and geographic averaging requirements of Section 254 of the Act and Section 64.1801 of the Commission's rules. At this point, however, Verizon does not know all of the various rate plans offered by MCI. In addition, Verizon expects to develop and adopt a common rate-averaged, integrated schedule for and acceptable to Verizon and MCI interexchange customers that complies with the requirements of Section 254 and the FCC's rules.

- b. *Explain how MCI will be operated in those states within Verizon's region where section 272 obligations have not yet sunset, if the merger is approved.*

RESPONSE TO SPECIFICATION 19.b:

Verizon intends to operate MCI in accordance with any applicable Section 272 obligations if the merger is approved.

Specifically, where Section 272 obligations remain in effect, MCI entities subject to Section 272 will be operated as independent carriers and will: (1) operate independently as required by section 272(b)(1); (2) maintain separate books, records, and accounts; (3) have separate officers, directors, and employees; (4) not obtain credit under any arrangement that would permit a creditor to have recourse to the assets of Verizon; and (5) ensure that transactions with Verizon are conducted on an arms-length basis, reduced to writing, and available for public inspection. Verizon will not discriminate between MCI entities subject to Section 272 and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards. Verizon will not discriminate in favor of MCI entities subject to Section 272 with respect to requests for telephone exchange and exchange access services.

- c. *According to page 68 of the Public Interest Statement, Verizon has made a decision to discontinue or not expand its offering of long distance prepaid calling cards. For prepaid calls sold to residential customers, provide separately for Verizon and MCI intrastate toll and domestic interstate resellers of MCI or Verizon, and an estimate for all providers: (a) originating intrastate toll and domestic interstate toll minutes and (b) revenues. For purposes of this specification, revenues should represent the amounts paid by the end-user customers and should correspond to amounts reported to the IRS for federal excise tax purposes. Provide documents in the possession of MCI employees David Skogen, Patricia K. Proferes, and Meline Formisiano; and Verizon employees John D. Broten and John Havens which discuss competition for prepaid calling cards, pricing strategies for prepaid calling cards, and MCI's market share of prepaid calling card minutes or revenues.*

RESPONSE TO SPECIFICATION 19.c:

Verizon's prepaid calling cards are sold through retail outlets, such as convenience stores. Verizon does not have information on which prepaid calling cards are sold to residential customers. Verizon's originating intrastate toll and domestic interstate toll minutes and revenues for prepaid calling cards are listed on Exhibit 19.C. Total forecasted industry domestic revenues for prepaid calling card services last year were \$1.57 billion, with a forecasted demand of 26.6 billion minutes of use for 2004. See Frost and Sullivan, Strategic Analysis of the Prepaid Long Distance Markets (US), Report # 6874-63 at 23, 25, Updated July 2004. Any documents from files of the requested custodians that are responsive to this request have been produced.

F. Asserted Public Interest Benefits

20. Paragraphs 10-18 of the Public Interest Statement and paragraphs 31-35 of the Bamberger, Carlton, and Shampine Declaration discuss the general benefits, savings, and efficiencies that will result from the merger, including, but not limited to (1) providing a full range of communications services to enterprise customers nationwide and around the globe at an accelerated pace; (2) the reinforcement of assets that play a critical role in national defense and homeland security; (3) new products for mass market customers arising from the integration of MCI's global IP network and products and Verizon's deployment of fiber-to-the-premises; (4) enabling the combined company to provide wholesale services more efficiently; (5) cost reductions stemming from the elimination of duplicative network facilities, staff, information and operation systems, lower procurement costs, etc.; (6) increased enhancements and innovation; and (7) the development and deployment of "seamless mobility" services.

- a. Separately describe each of these asserted benefits or efficiencies, as well as any efficiencies from any and all other sources arising from the integration of MCI's and Verizon's network and operations not specifically identified above, including:
- (1) The steps that MCI and Verizon anticipate taking to achieve the benefit or efficiency, the risks involved in achieving the benefit or efficiency, any conditions for achieving it, and the time and costs (to your company or to any other person) required to achieve it;
 - (2) A quantification of the benefit or efficiency and a detailed explanation of how that quantification was calculated;
 - (3) A detailed explanation of how the proposed transaction would allow the merged company to achieve the benefit or efficiency;
 - (4) A description of why the merger is necessary to achieve this benefit or efficiency.

RESPONSE TO SPECIFICATION 20.a:

As Verizon explained in its Application, the combination of Verizon's and MCI's complementary assets and expertise, along with the substantial added investment Verizon has committed to make in MCI's network and systems, will strongly promote the public interest by creating a number of significant benefits for consumers and increasing efficiency. Verizon

estimates that the transaction will generate efficiencies of approximately \$7.3 billion net present value, expressed in terms of Earnings before Interest, Taxes, Depreciation, and Amortization (“EBITDA”), and net of the costs to achieve those efficiencies.¹²¹ This figure includes both expected increases in revenues and cost savings.

All classes of customers will benefit from the transaction. Large enterprise customers will benefit from the creation of a strong new facilities-based competitor that will be capable of providing a full range of communications services to these customers nationwide and globally. Governmental and national security customers will benefit from the strengthening of an important technology and infrastructure provider and the ability to obtain a full array of existing and future services across the country and around the world. Likewise, wholesale customers will benefit from the creation of a stronger nationwide provider with a broader facilities-based reach. Mass market customers, in turn, will benefit from the combination of MCI’s IP network and expertise with Verizon’s ongoing deployment of the nation’s most advanced broadband networks. In short, the combination of Verizon and MCI will create the type of national facilities-based competitor that public policy has sought, and provide the significant public interest benefits that inherently go with it.

These efficiencies could not be achieved, or at least could not be achieved as cost-effectively or quickly, without the transaction. Verizon is not aware of any alternative transactions that would enable it to achieve all of the same types or levels of efficiencies within

¹²¹ Verizon stated in the Application that the net present value of expected synergies was \$7 billion. Ongoing analysis resulted in the slightly increased estimate of \$7.3 billion. The attached spreadsheet shows the differences between the two estimates. See Exhibit 20.A.1.

the same time frames. Although some of the efficiencies identified in this answer might be realized through a series of other initiatives, Verizon also does not believe that it could achieve all of these same efficiencies on a stand-alone basis, and certainly not as effectively or quickly as through the acquisition of MCI and the subsequent investment Verizon intends to make in MCI's network facilities and operations.

In this response, Verizon provides further details about the efficiencies and benefits it expects this transaction will bring. Verizon's efficiencies estimates are based on data and facts obtained during the course of the company's due diligence efforts in connection with the transaction. However, Verizon and MCI have not yet conducted detailed integration planning. In addition, except as noted in the descriptions below, Verizon has not yet detailed the specific steps that it anticipates taking to achieve the estimated efficiencies. Verizon also has not detailed the exact risks involved in achieving the efficiencies, although it has built risk-adjustments into the efficiencies estimates to help account for those risks. The numbers provided in this response are necessarily only Verizon's best estimates at this time. Verizon is still refining its estimates and, in any case, the actual efficiencies that Verizon may achieve as a result of the transaction may differ from those included in its estimates. As Verizon has explained, it has a strong record of achieving synergies in its previous mergers.

The benefits and efficiencies from the transaction are described further in Exhibit 20.A.2.

- b. *For efficiencies that involve cost savings, state separately the one-time fixed costs savings (in total dollars), recurring fixed costs savings (in dollars per year), and variable costs savings (in dollars per unit, e.g., minutes of use, subscribers). Explain in detail how these cost savings are aggregated up to the \$7 billion net present value cost saving estimate as discussed, e.g., on page 15 of the Public Interest Statement.*

RESPONSE TO SPECIFICATION 20.b:

Verizon has not calculated efficiencies using cost classifications such as “fixed” and “variable.” Many of the cost reductions and savings identified could be termed “fixed” in the short term, but have many of the characteristics of semi-variable, variable, or marginal costs over a longer time horizon as they relate to Verizon’s pricing decisions. In addition, Verizon believes that significant variable cost savings will result from the transaction, including certain procurements savings, certain headcount eliminations in network operations, and savings due to moving traffic that is currently off-net to the wholly owned networks of the combined company. Certain capital investments related to new technologies and improvements in MCI’s operations will likely result in improved efficiencies that will yield variable cost savings or marginal cost savings. For example, improved efficiencies resulting from IT investments may lead to lower costs of billing or operations for the combined entity, and thus result in variable cost savings. Verizon has not performed the necessary analysis to definitively determine how each of these identified cost savings will develop over time in terms of fixed and variable costs.

Even though Verizon did not classify its expected cost savings into fixed and variable categories as part of its synergies analysis, for purposes of this response, Verizon has attempted to do so by making rough estimates of its estimated efficiencies as one-time fixed, recurring fixed, and variable. This breakdown is based on the following standard accounting definitions of

fixed and variable costs: (1) fixed costs (or expenses) are operating costs, which individually or as a class do not vary with business volume; and (2) variable costs are costs that vary directly, or sometimes proportionately, with sales or production volume or with other measures of business activity. The breakdown of efficiencies using the standard accounting categories is presented in Exhibit 20.B.

As noted above, with respect to the total amount of efficiencies, Verizon now estimates that the transaction will generate efficiencies of \$7.312 billion net present value, expressed in terms of Earnings before Interest, Taxes, Depreciation, and Amortization (“EBITDA”), and net of the costs to achieve those efficiencies. The tables in Exhibit 20.A.1 summarize how the different categories of efficiencies (which are described in more detail above in response to Specification 20(a)) were aggregated to reach the total figure.

Detailed documentation underlying how Verizon calculated the amount of efficiencies is being provided in response to Specification 20(d). Although this total is necessarily an estimate, as Verizon explained in the Application, it has a history of successfully achieving targeted cost savings and other synergies as exemplified by the Bell Atlantic/GTE merger, and expects that it will achieve or exceed the estimated efficiencies in this transaction. *See* Smith Decl. ¶ 7.

c. *Explain whether the research and development (“R&D”) (e.g., investment in critical network infrastructure or advanced IP services) will be at least as large as the sum of R&D spending of the applicant firms before the merger, and whether the combined output from the combined R&D programs of the merged firm will be increased or unreduced.*

RESPONSE TO SPECIFICATION 20.c.:

Verizon believes that research and development in the form of innovation and investment in new technologies and network infrastructure is critical to the future of the combined company. Verizon already has demonstrated its commitment to such investment by spending billions of dollars in the rollout of new facilities and services such as fiber to the home and 3G wireless services such as EV-DO. Further, Verizon has committed to an investment of \$2 billion in capital to enhance MCI’s network and information technology platforms, and a total of \$3 to \$3.5 billion including integration expenses.

The combined company has little choice but to continue investment and innovation in the face of strong and growing competitive pressures from an array of both wireline and intermodal competitors, including cable operators, VoIP providers, wireless carriers, other ILECs and CLECs, ISPs and content providers, and various other technology companies. One of the many benefits of this merger is that it will give the combined company both the financial strength and the expertise to continue both companies’ historic commitment to investment and innovation. Although the amount spent on R&D necessarily will depend on market, regulatory, and technological developments, Verizon expects that the combined company will spend at least as

much on innovation and investment in network infrastructure as the standalone companies did prior to this transaction.

d. Provide all documents and an electronic copy of all data used in calculating Verizon's \$7 billion estimate of the net present value of the savings which would be achieved through the merger, as stated on page 15 of the Public Interest Statement. Explain the extent to which the \$7 billion estimate is dependent upon the transition to a converged, IP-based broadband network as discussed, e.g., on page 17 of the Public Interest Statement.

RESPONSE TO SPECIFICATION 20.d:

The documents and data underlying the calculation of the net present value of the total efficiencies are either stamped individually with the Bates prefix VZFCC-Q20, or (because they were located in the files of custodians identified in response to specifications 3(e), 17(c) & (e), 19(c), or 24(b)) have the Bates prefix associated with the appropriate custodian, but are copied for the Commission's convenience again in the electronic folders labeled Q20. Although Verizon has not quantified the degree to which its total synergy estimate is based on the transition to a converged IP-based broadband network, as discussed above, that transition will be an integral part of the combined company's strategy going forward, and many of the benefits will stem at least in part from it.

21. Pages 15-18 of the Public Interest Statement discuss how the merger will increase the incentive of the merged company to “. . . bring increased investment to critical network infrastructure and accelerate the delivery of innovations to all consumers.” The Public Interest Statement claims: “The combined companies’ integrated IP network and expertise will not only enable the combined company to provide services more efficiently, but also to add new features and functions more quickly, and ultimately to deliver them faster and more efficiently to mass-market and larger business customers alike.”

- a. Quantify the benefits to residential, small business, large business, wholesale, and government customers of developing an integrated IP network, and provide a detailed explanation of how the quantifications were calculated.

RESPONSE TO SPECIFICATION 21.a:

Verizon cannot at this time quantify the benefits that customers will obtain through the development of integrated IP capabilities, at least in part because the companies have not yet conducted detailed integration planning and Verizon does not have the kind of detailed information about MCI’s network and operations that would be needed before such a quantification was even possible. In addition, as described in the Application, the particular benefits at issue here include the delivery of innovations to a broader class of customers and more quickly than would otherwise occur, and these benefits cannot readily be translated into a specific quantitative figure. Nevertheless, Verizon is confident that each type of customer will benefit substantially from this transaction and the consequent deployment of integrated IP networks.

Specifically, as described in the Application and Reply and the response to specification 20, large enterprise and government customers will have a new facilities-based competitor capable of providing a full range of IP-based services on a global and national scale. Wholesale customers likewise will benefit from the creation of a stronger nationwide provider with a broad

reach that will have strong economic incentives to offer wholesale services as part of its product portfolio in order to fill its IP-based networks with revenue-producing traffic and recover its investment. And mass market customers in markets throughout the country will benefit, for example, by obtaining end-to-end connectivity for IP-based services and the benefits of innovations developed originally for enterprise customers that can then be standardized and provided on a broad basis. In addition, innovations can be delivered more quickly as a result of the combined company's greater capabilities and assets.

- b. *Describe why the merger is necessary for MCI or Verizon to achieve these benefits for residential, small business, large business, wholesale, and government customers.*

RESPONSE TO SPECIFICATION 21.b:

Verizon believes that the efficiencies associated with the development of an integrated IP network and the combined company's IP capabilities and expertise could not be achieved, and certainly could not be achieved as efficiently or quickly, through any alternative to this transaction. Each company has assets the other does not that are essential to the development of such a network and the attendant capabilities and resulting efficiencies. Verizon has a national wireless network and advanced local broadband platforms and is in the midst of expending billions of dollars to bring fiber to customer premises. MCI has a national and global IP backbone and longhaul network, a full suite of IP-based connectivity services, such as VPN services, e-mail, and web hosting, and significant IP-related expertise. Thus, each company has significant gaps in the set of assets and expertise needed to develop a national integrated IP network and to deliver the full set of services that customers want on a nationwide basis. Bringing these assets and expertise together will enable the combined company to provide a full range of IP services to residential, small business, enterprise, wholesale, and government customers nationwide on a facilities basis.

22. *Please explain how the asserted synergies resulting from the merger are likely to affect national security and homeland defense.*

RESPONSE TO SPECIFICATION 22:

National security and homeland defense customers will benefit from the transaction for much the same reasons as other enterprise customers. While a number of companies assemble and provide full-service capabilities to governmental customers, and Verizon and MCI both provide various services to national security and defense customers today, this transaction will add a strong full-service, facilities-based provider capable of delivering integrated end-to-end service on a national and global basis. Moreover, the combined company will have the financial resources that will enable it to make the investments and innovations required to ensure that national security and defense agencies continue to receive reliable service over technologically advanced networks that provide both the legacy and cutting-edge services they need. Verizon already has committed to invest \$2 billion of capital, and a total of \$3 to \$3.5 billion including expenses, to further strengthen MCI's network and systems, and this investment will redound to the benefit of governmental customers, including those responsible for national security and homeland defense, just as it will for other enterprise customers.

The benefits of the transaction are likely to be particularly pronounced in the case of national security and homeland defense customers because they need to efficiently connect installations located across the country and around the world, and have a heightened need for network integrity and security to reach those far-flung locations. For example, if a single provider provides a service end-to-end over its own network, it is easier to achieve the appropriate level of security than if the service traverses networks of multiple providers; among

other things, there will be fewer interfaces, handoffs, and other points of potential vulnerability. In addition, carriers may well be reluctant to share information with one another about the ways in which their networks might be vulnerable to attack. Similarly, if a virus or other attack were mounted, it would be faster and simpler to identify, isolate, and respond to the attack if the facility was part of a network owned by a single organization.

H. General Information

23. Provide all documents cited in the Public Interest Statement and the Bamberger et al., Crandall & Singer, Bruno & Murphy, Taylor, Lew & Lataille, Hasset et al., Lataille, Smith, Buchanan, Lack & Pilgrim, Huyard, McMurtrie, Powell & Owens, Cerf, Tarazi, and Kende declarations, as well as any data or competitive analysis relied upon in preparing those documents, grouped by declaration/Public Interest Statement.

RESPONSE TO SPECIFICATION 23:

Except as noted below, the document production accompanying this response contains all material cited in the Public Interest Statement and supporting declarations.¹²² The document production also contains any data or competitive analyses relied upon in the preparation of the Public Interest Statement and the declarations. All documents are grouped separately by declaration/Public Interest Statement, and can be found in the following bates number ranges, with additional detail provided in Exhibit 23:

INDEX OF SOURCES			
Declaration	Begin Bates File through End Bates File		Confidential Status
Public Interest	VZFCC-Q23-000001 VZFCC-Q23-0010145 VZFCC-Q23-0002808 VZFCC-Q23-0010104	VZFCC-Q23-0000425 VZFCC-Q23-0003224	CONFIDENTIAL CONFIDENTIAL
Carlton et al	VZFCC-Q23-0000429 VZFCC-Q23-0003248	VZFCC-Q23-0000778 VZFCC-Q23-0004193	CONFIDENTIAL
Crandall-Singer	VZFCC-Q23-0000782 VZFCC-Q23-0001097 VZFCC-Q23-0001078 VZFCC-Q23-0004195	VZFCC-Q23-0001076 VZFCC-Q23-0001244 VZFCC-Q23-0001087 VZFCC-Q23-0004457	CONFIDENTIAL CONFIDENTIAL
Bruno-Murphy	VZFCC-Q23-0009272 VZFCC-Q23-0009832	VZFCC-Q23-0009830 VZFCC-Q23-0010067	CONFIDENTIAL

¹²² MCI is separately providing a response to this specification in relation to the declarations of Huyard, McMurtrie, Powell and Owens, Cerf, Tarazi and Kende.

Taylor	VZFCC-Q23-0001246 VZFCC-Q23-0004460	VZFCC-Q23-0001742 VZFCC-Q23-0006303	CONFIDENTIAL
Lew-Lataille	VZFCC-Q23-0006305 VZFCC-Q23-0007124	VZFCC-Q23-0007998	CONFIDENTIAL HIGHLY CONFIDENTIAL
Hassett et al	VZFCC-Q23-0001752 VZFCC-Q23-0002538 VZFCC-Q23-0002686 VZFCC-Q23-0008035 VZFCC-Q23-0002529 VZFCC-Q23-0002675	VZFCC-Q23-0002524 VZFCC-Q23-0002673 VZFCC-Q23-0002797 VZFCC-Q23-0009106	CONFIDENTIAL CONFIDENTIAL CONFIDENTIAL
Lataille	VZFCC-Q23-0002800 VZFCC-Q23-0009130	VZFCC-Q23-0009134	CONFIDENTIAL
Smith	VZFCC-Q23-0009135	VZFCC-Q23-0009262	CONFIDENTIAL
Buchanan	VZFCC-Q23-0002801		
Lack-Pilgrim	VZFCC-Q23-0002804	VZFCC-Q23-0002807	

The paper copy of the document production separates the material for the above listed bates numbers into one or more Redweld file folders organized according to the document to which they pertain (*i.e.*, the Public Interest Statement or a particular declaration), and are labeled as such. The label also displays the bates number range contained within the folder. A colored sheet of paper separates the individual documents in the file folders.

The electronic version of this material is grouped in similar fashion on the accompanying CD-ROM discs. All of the electronic files are grouped in electronic folders, which are labeled according to the document to which they pertain (*i.e.*, the Public Interest Statement or a particular declaration). The documents contained within the electronic folder are titled according to the first bates number that appears on the first page of the file.

The documents included in Verizon's response do not include any FCC documents or any court documents. Some additional material also has been excluded from the document

production due to licensing or software issues. In particular, the following material was excluded:

- The Public Interest Statement cited the 2004 *Global Internet Geography* report by Telegeography Research. Licensing restrictions prevent it from being reproduced.
- Exhibit 1 to the Hassett *et al.* Declaration cites *Top 10 MSOs by County* data purchased from Media Business Corp. Licensing restrictions prevent it from being reproduced.
- Exhibit 3 to the Hassett *et al.* Declaration is based on data from Warren's *Cable Factbook*, which requires special mapping software to access. To make this material accessible, Verizon has included worksheets summarizing these data in Microsoft Excel format. Data from the *Cable Factbook* were supplemented with publicly available information that was obtained by using zip code or other available reference tools on cable company websites.
- The documents on which Mr. Smith relied for the preparation of his declaration are included in Verizon's response to specification 20(d) and are not duplicated here.

Exhibits to declarations are not reproduced here, but Verizon is providing these exhibits in their native electronic format. All electronic files produced in their native format also are being produced in paper and PDF format for bates numbering purposes, but the native format electronic files are not bates numbered.

24. To the extent not otherwise provided in response to this Information and Document Request:

- a. In accordance with Instruction 20.a, this specification applies only to MCI.
- b. Submit the following Verizon documents: market studies, procurement strategies, pricing strategies, competitive strategies, product strategies, merger integration strategies, and marketing strategies (whether prepared internally or by outside advisors) relating to services sold to business, wholesale, and residential customers, as well as any competitive analyses or studies prepared exclusively for Verizon (whether prepared internally or by outside advisors) that discuss competition between MCI and Verizon for business, wholesale, or residential customers in the possession of: Michael Boches, Caroline Galand Ward, Michelle Ruseey McCarthy, Michael Hassett, Kathy Koelle, John Havens, Judy Verses, Ronald H. Lataille, Michael Dagle, Harry J. McMahon, Scott Pierce, Veronica Pellizzi, Anthony Recine, Kathleen Sullivan, Shelley Murphy, Shawne Angelle, Jeffrey E. Taylor, Eric J. Bruno, Jay A. Behrens, Kimberly G. Lessner, Joseph Lucatorto, Steven G. McCully, Claire Beth Nogay, David Small, Mark C. Griffith, Quintin Lew, Thomas D. Maguire, Jeffrey A. Masoner, Susan Fox, Mark L. Heinold, Kathryn Kalajjian, and John D. Pricken.

RESPONSE TO SPECIFICATION 24.b:

Any documents from files of the requested custodians that are responsive to this request have been produced.