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June 2, 2005

**REDACTED -- FOR PUBLIC INSPECTION**

**BY HAND DELIVERY**

*Ex Parte Presentation*

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, SW, TW-B204  
Washington, DC 20554

**RECEIVED**

JUN - 2 2005

Federal Communications Commission  
Office of Secretary

Re: WC Docket Nos. 05-65 and 05-75:  
*SBC Communications Inc. and AT&T Corp. Applications for Approval of  
Transfer of Control*  
*Verizon Communications Inc. and MCI, Inc. Applications for Approval of  
Transfer of Control*

Dear Secretary Dortch:

On June 1, 2005, Matt Gutierrez, John Dobbins, Janet Fischer, and Paul Kouroupas of Global Crossing North America, Inc. ("Global Crossing"), Joseph Farrell of the University of California, Berkley (by telephone), and Teresa Baer and Marc Williamson of Latham & Watkins LLP met with Nicholas Alexander, James Bird, C. Anthony Bush, Ann Bushmiller, Ben Childers, Kathleen Collins, Gail Cohen, Bill Dever, David Krech, Marcus Maher, Pamela Megna, Jon Minkoff, Kent Nilsson, Karen Onyeije, Joel Rabinovitz, Craig Stroup, Mark Uretsky, Rodger Woock, and Paul Zimmerman of the Federal Communications Commission to discuss the above-captioned proceedings. The attached presentation was used as the basis of the discussion.

Global Crossing submits the attached *ex parte* presentation pursuant to the Commission's Orders Adopting Protective Orders in the above-captioned proceedings (DA 05-635, rel. Mar. 10, 2005; DA 05-647, rel. Mar. 10, 2005 ("Protective Orders")). Pursuant to the Protective Orders, Global Crossing is submitting to the Commission two copies of the unredacted, confidential *ex parte* presentation and four copies of the redacted, confidential *ex parte* presentation. Global Crossing also is submitting four copies of its unredacted, confidential *ex parte* presentation to Gary Remondino of the Commission's Wireline Competition Bureau.

LATHAM & WATKINS LLP

Each page of the confidential *ex parte* presentation is appropriately stamped pursuant to the Protective Orders.

Please direct inquiries regarding access to the unredacted *ex parte* presentation or any other questions regarding this submission to the undersigned.

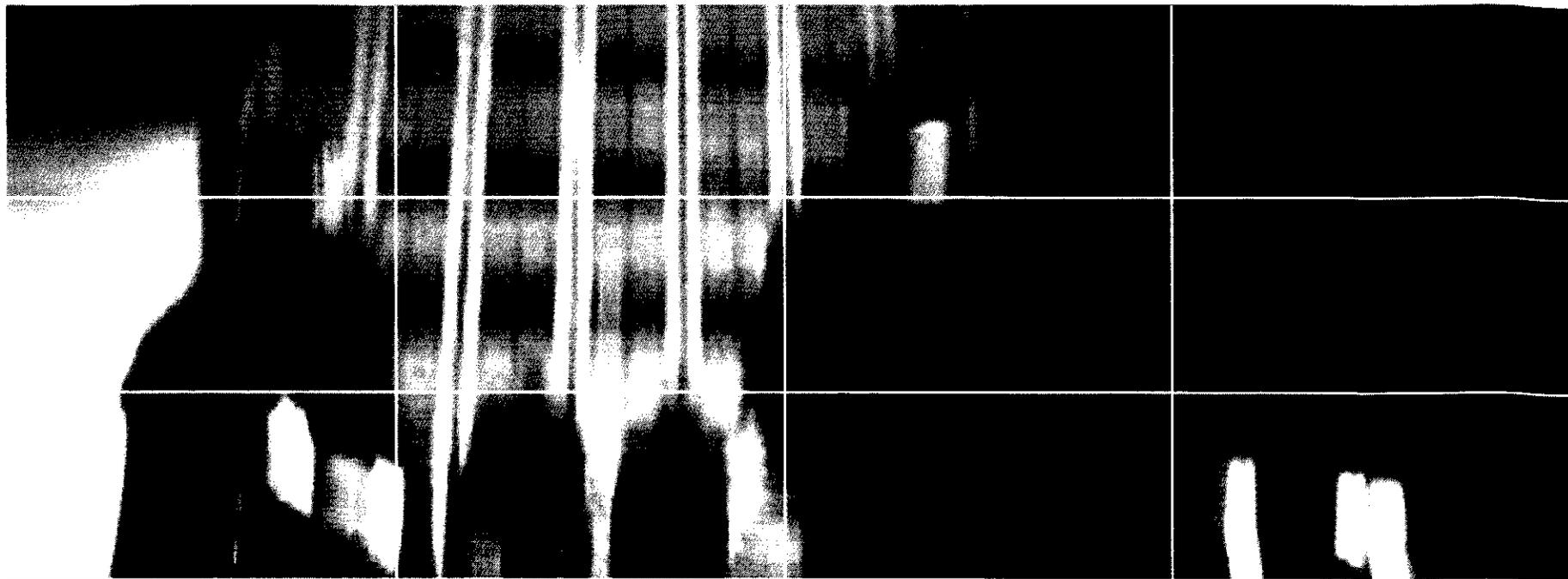
Truly yours,

A handwritten signature in cursive script that reads "Teresa D. Baer" followed by a small flourish or mark.

Teresa D. Baer

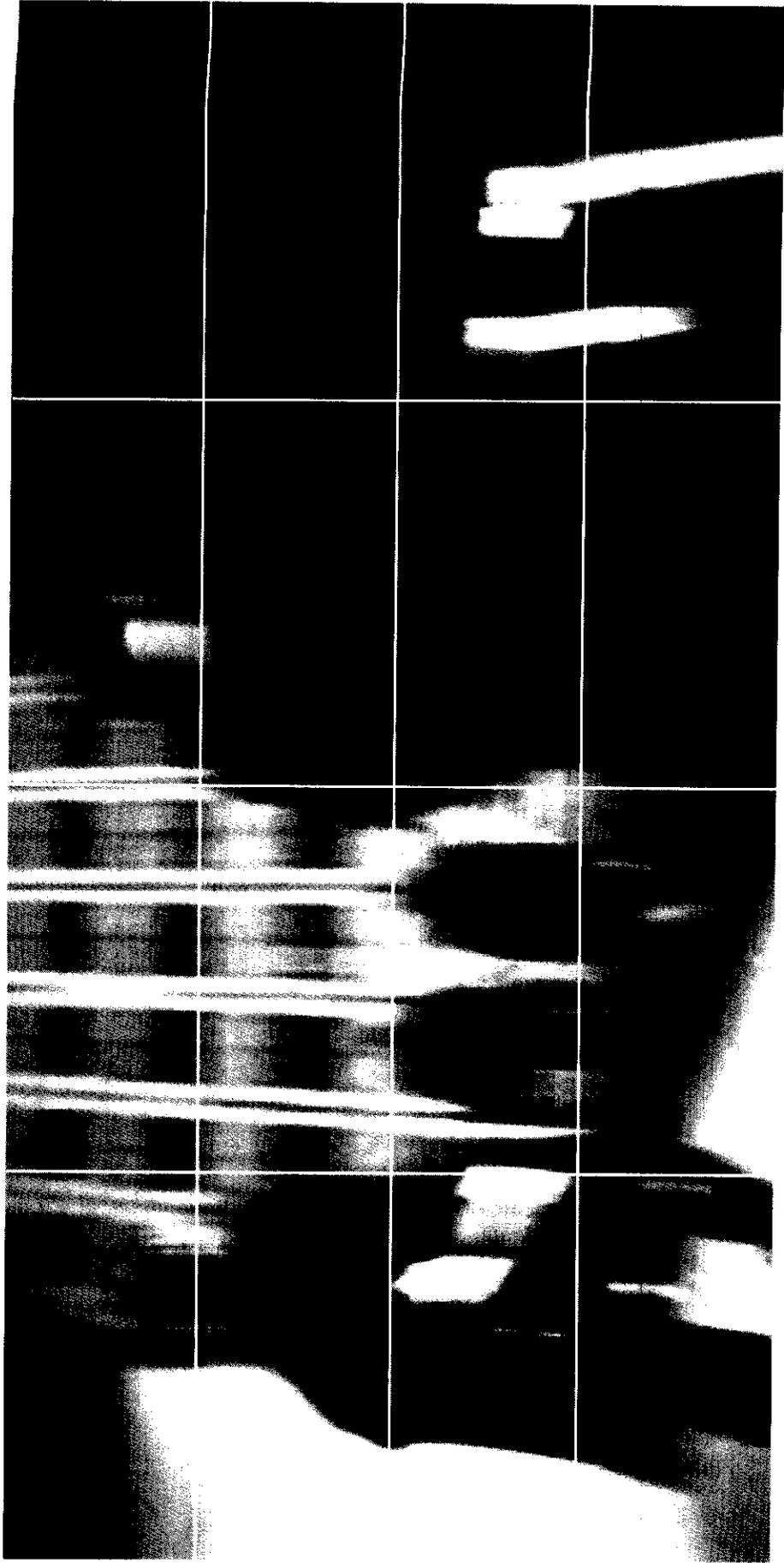
Enclosures

cc: Nicholas Alexander  
James Bird  
C. Anthony Bush  
Ann Bushmiller  
Ben Childers  
Kathleen Collins  
Gail Cohen  
Bill Dever  
David Krech  
Marcus Maher  
Pamela Megna  
Jon Minkoff  
Kent Nilsson  
Karen Onyeije  
Joel Rabinovitz  
Craig Stroup  
Mark Uretsky  
Rodger Woock  
Paul Zimmerman

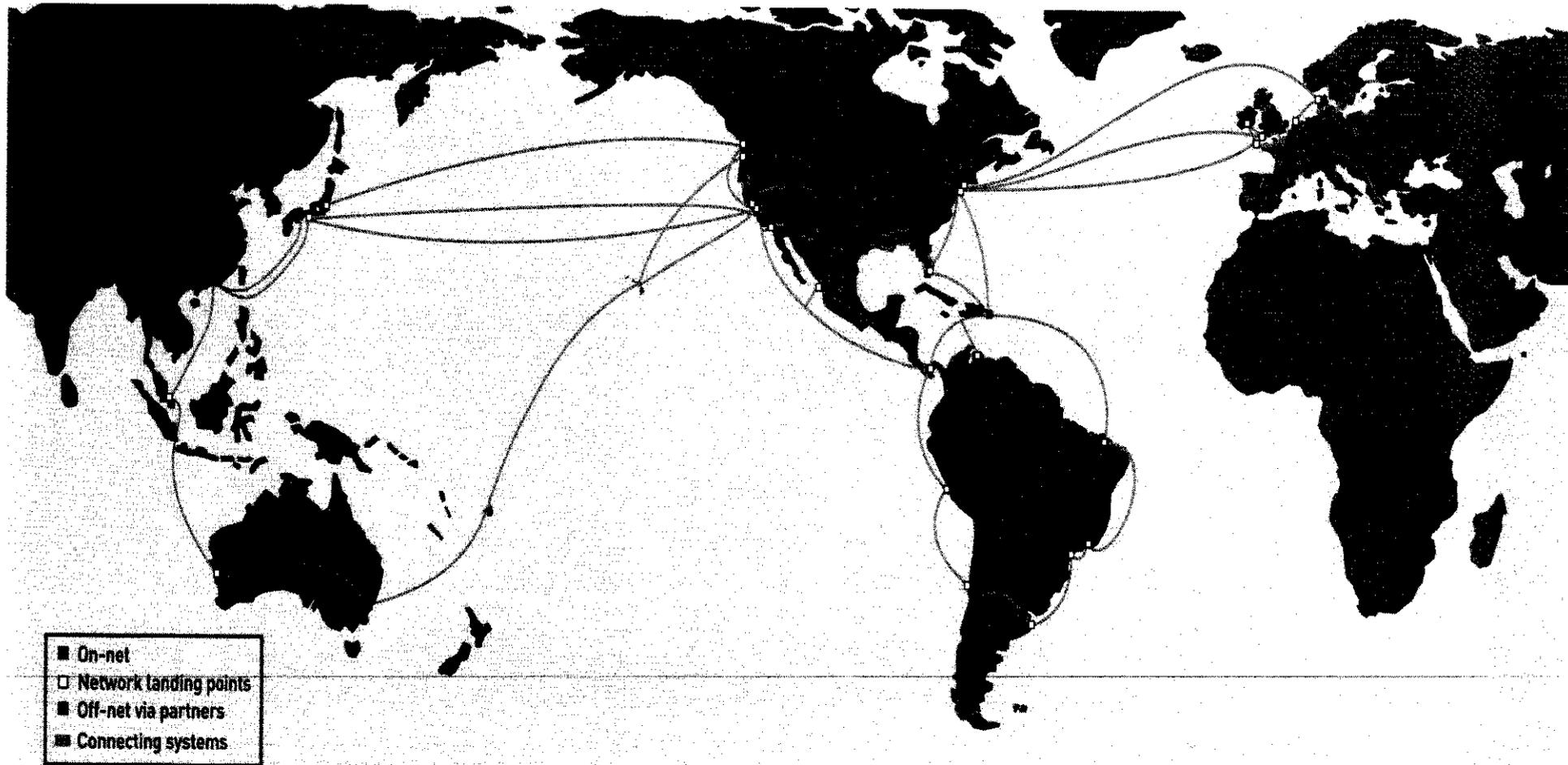


## Competitive Concerns Arising from Proposed SBC/AT&T and Verizon/MCI Mergers

Presented by: Global Crossing Limited  
To: Federal Communications Commission  
Date: June 1, 2005



# Introduction to Global Crossing



## Global Crossing's Global IP Network

Global Crossing's highly secure IP network is managed and operated end-to-end. It is a network that will not be replicated in the near future, if ever.



# Global Crossing at a Glance

Global Crossing was founded seven years ago based on an idea ahead of its time ... IP.



**Network:** Core network connects more than 300 cities in over 30 countries, delivers services to 575+ major cities in over 50 countries.

Industry leading network performance: availability and packet delivery of “five nines” (99.999+%)

More than 28 billion minutes of VoIP traffic transported over VoIP platform by end of 2004

**Services:** A fully integrated and interoperable suite of IP and legacy services for carriers and enterprises including IP VPN Service, VoIP Service and IP Video

**Customers:** More than 40% of Fortune 500 companies  
700 carriers, mobile operators and ISPs

## Alternatives are limited

### → Circuit analysis has shown that CLECs other than AT&T and MCI cannot support Global Crossing's special access requirements

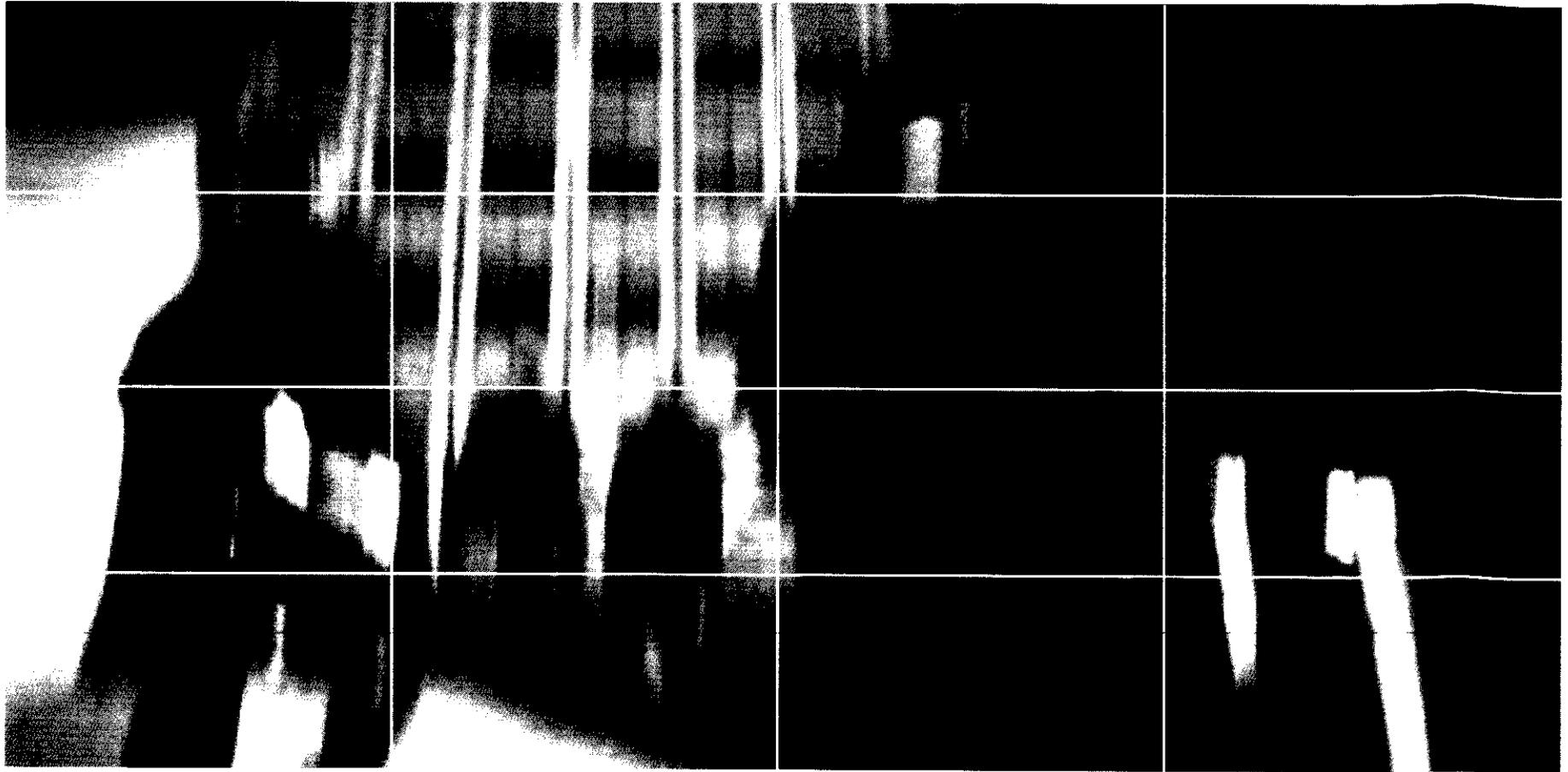
- Even within the business districts many buildings remain unserved
- Suburban and ex-urban office locations are only served by AT&T, MCI and the RBOCs

### → Self-deployment is cost-prohibitive

- At least \$250,000 to build to a customer location
- Access to capital is limited, GC's capital budget is less than \$90m
- Customer must have OC-n service to justify construction

### → Entry/expansion by CLECs is unlikely

- Limited access to capital
- Lengthy delays and high costs related to right-of-way and building access
- No speculative builds, burden borne by customers



# **Consolidation of the Special Access Market Will Make a Bad Situation Worse**

The four merging parties receive half of Global Crossing's total access spend in the United States

-- [Redacted] --

# On-net buildings

## → No other CLEC matches the breadth of AT&T and MCI's local access networks

- No other CLEC serves as many buildings as either AT&T or MCI
- AT&T and MCI serve the key carrier and enterprise customer locations

Number of on-net buildings  
(nationwide)

-- [Chart Redacted] --

## In-region building access comparison

-- [Redacted] --

## Choice is limited by volume discount plans

### → SBC

→ **MVP Discount Plan:** Must maintain 95% of baseline year's special access spend over a 5 year term to receive a discount on special access services. *See Ameritech FCC Tariff 2, section 19; PACBell FCC Tariff 1, section 22; SWBT FCC Tariff 73, section 38.*

→ **HCTPP Discount Plan:** Must commit to a base level spend on dedicated T-1s, and maintain 91% of that spend over a 5 year term to receive a discount. *See SWBT FCC Tariff No. 73, Section 7.2.20.*

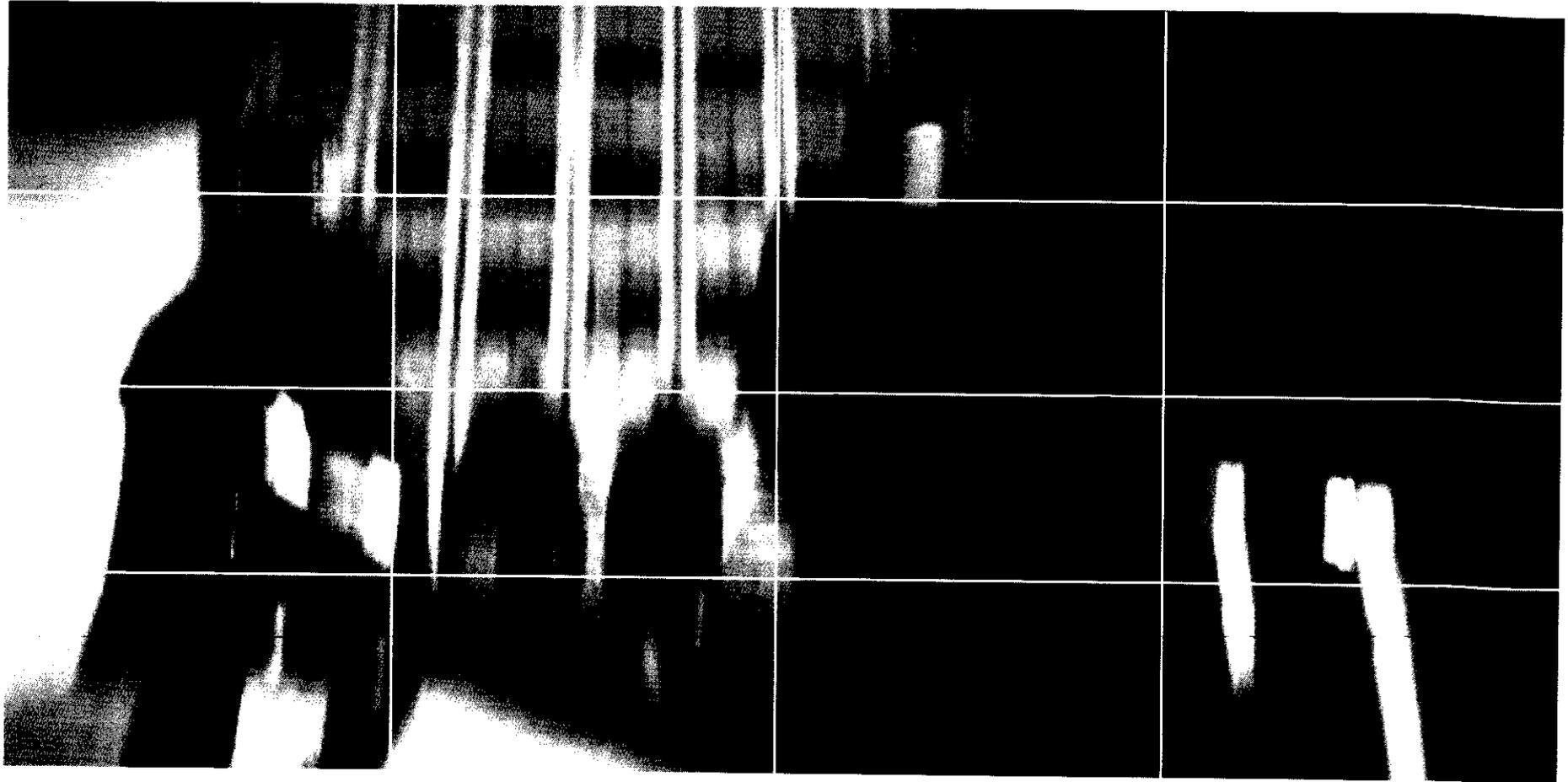
→ **DS1 TPP Discount Plan:** Must commit to a base level of DS-1 channel terminations and maintain 80% of that level for 3 years to receive a discount. *See PacBell FCC Tariff No. 1, Section 7.4.18.*

### → Verizon

→ **FMS/CDP Discount Plans:** Must maintain 90% of baseline year's switched and special access circuits (FMS Plan) and channel terminations (CDP Plan) over a five year term to receive a discount. *Verizon South FCC Tariff No. 1, Sections 6.8.26, 7.2.13, 25.1; Verizon North FCC Tariff No. 11, Sections 6.2.12, 7.2.16, 25.*

## Choice is limited by volume discount plans

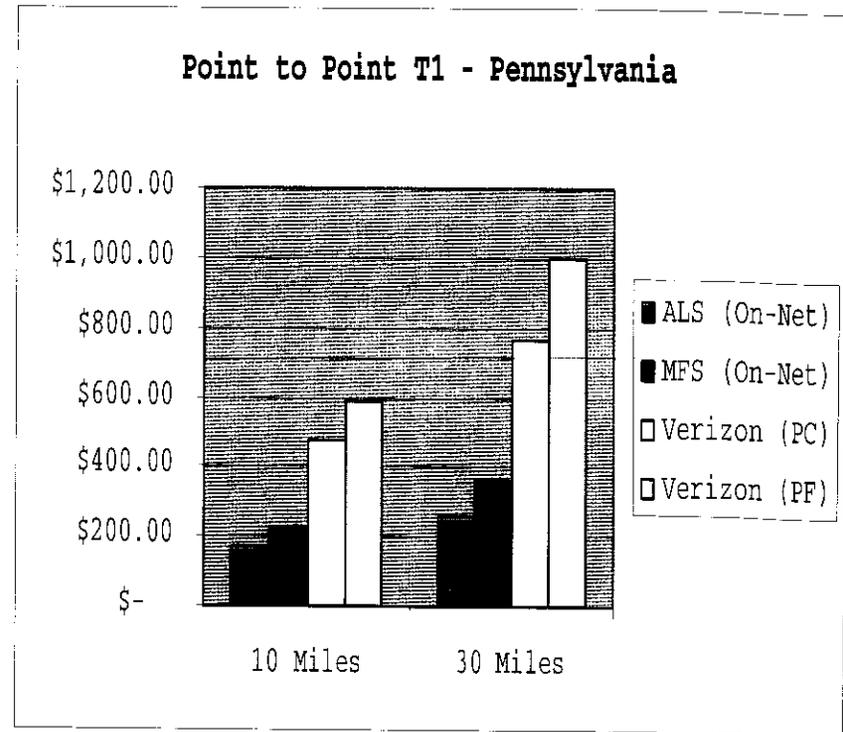
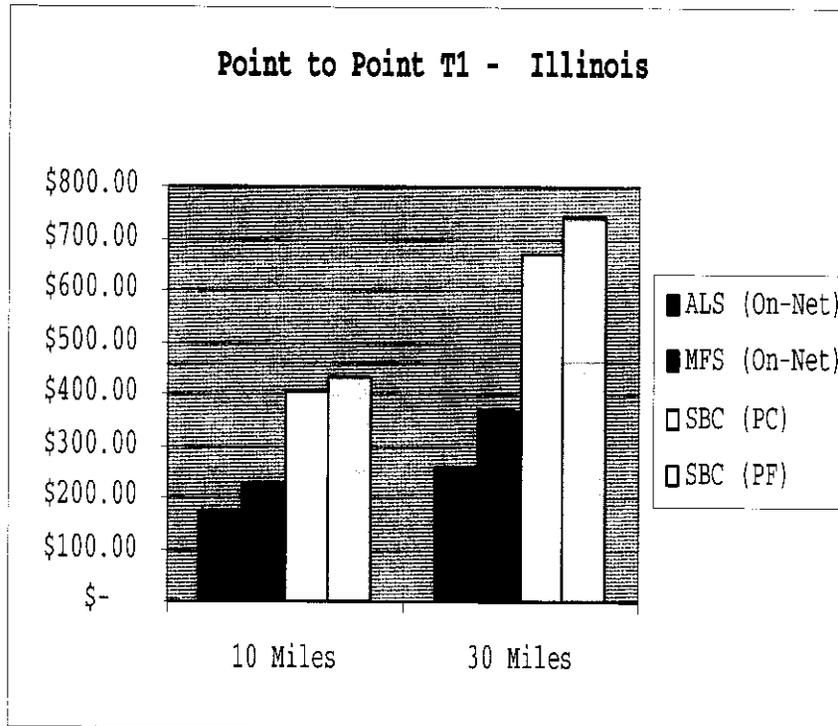
- Failure to meet any of these volume commitments over the term of the specified plan will result in loss of discount, and substantial financial penalties.
- Benefit runs completely to the BOC
  - Commitment levels can be raised, making the following year's commitment even higher, but cannot be lowered without substantial cost to customer.
- It is more cost effective for Global Crossing to pay SBC or Verizon for the entire prescribed commitment *even if Global Crossing no longer has sufficient business to support the commitment*. The higher rates and termination penalties associated with a shortfall or negotiating lower commitments are onerous.
- These commitments restrain our ability to use lower cost competitive access alternatives.



## SBC and Verizon Exercise Significant Pricing Power

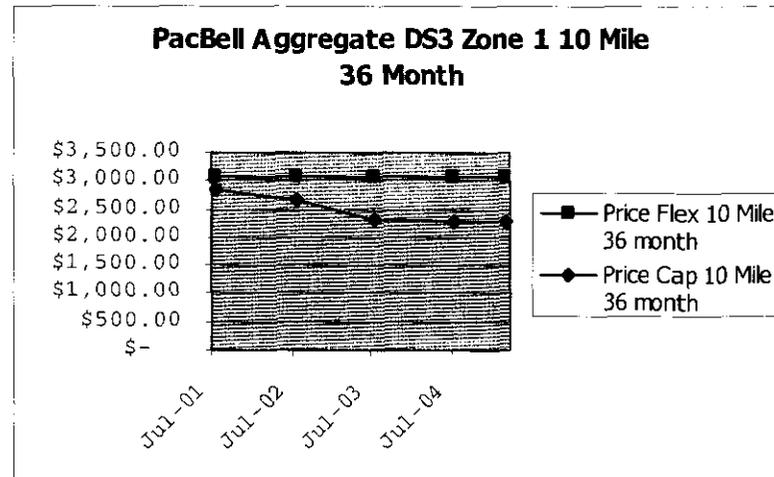
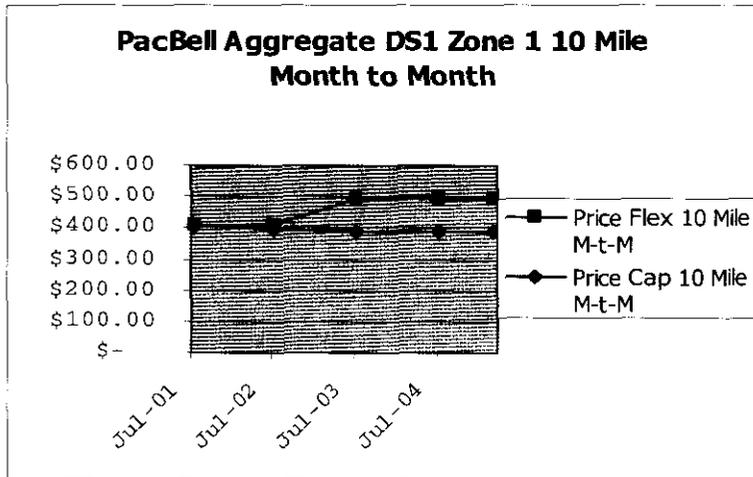
# Price comparison of major access vendors

Sample Point to Point Circuits (DS-1) ordered CAP end to end  
RBOC end to end  
(CAP rates reflect on-net only)



# Pricing trends indicate market dominance

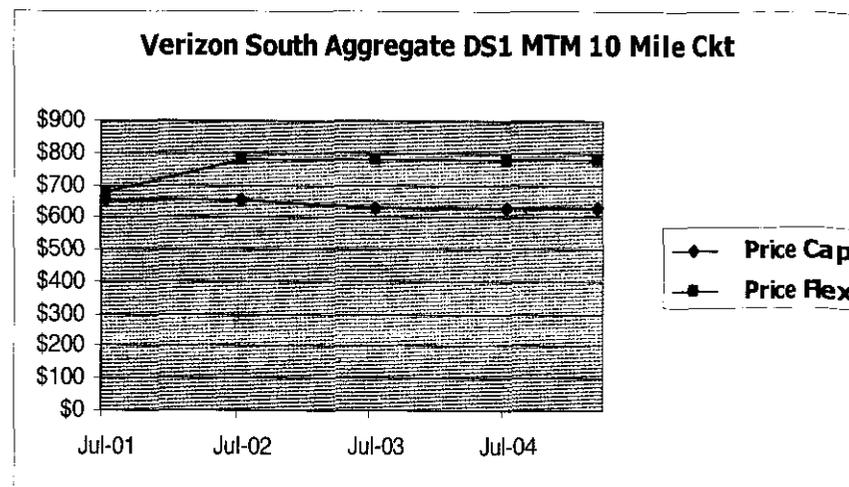
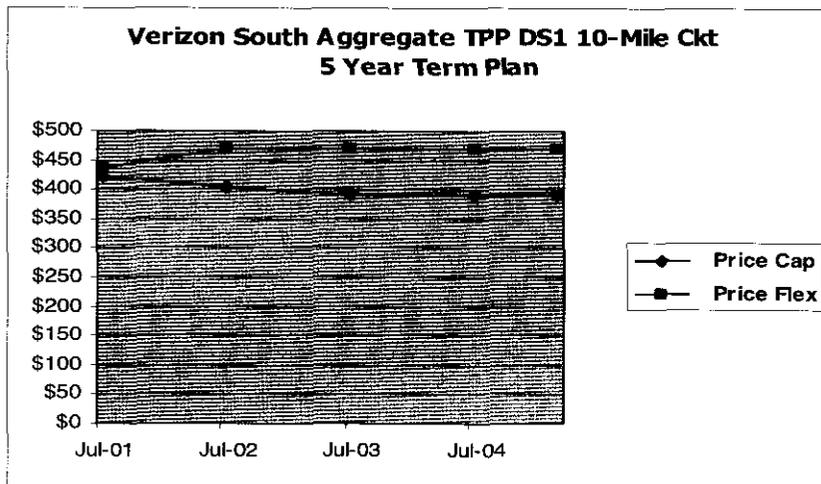
## SBC PacBell Special Access Circuits – Aggregate Rate Annual Price Point Samples Trended (Includes Mileage and Channel Terms)



**SBC has utilized its pricing flexibility under FCC rules to either raise rates or hold them steady during a time in which costs continue to decline, economies of scale have been achieved, and wholesale and retail rates in most other segments of the industry have declined markedly**

# Pricing trends indicate market dominance

## Verizon Special Access Circuits – Aggregate Rate Annual Price Point Samples (Includes Mileage and Channel Terms)



**Verizon has utilized its pricing flexibility under FCC rules to either raise rates or hold them steady during a time in which costs continue to decline, economies of scale have been achieved, and wholesale and retail rates in most other segments of the industry have declined markedly**

# Comparison of long-haul and short-haul pricing

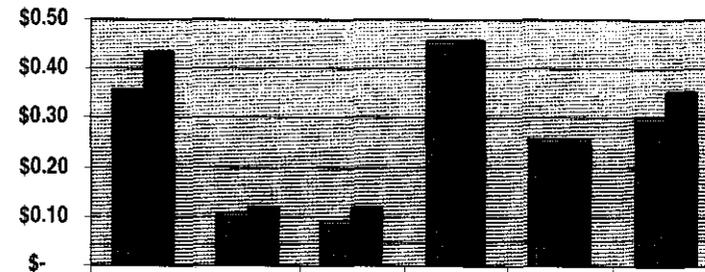
## Rates per DSO Circuit Mile 10 Mile Month-to-Month Sample

**DS1 RBOC rates per DSO Circuit Mile**  
Zone 1 - 10 mile - Month to Month Circuit



	BST	QWST	SBC-PAC	SBC-AMER	SBC-SWBT	VRZN
PRICE CAP	\$0.98	\$0.60	\$0.58	\$1.93	\$0.90	\$0.99
PRICE FLEX	\$1.10	\$0.85	\$0.79	\$1.93	\$0.98	\$1.37

**DS3 RBOC rates per DSO Circuit Mile**  
Zone 1 - 10 mile - Month to Month Circuit



	BST	QWST	SBC-PAC	SBC-AMER	SBC-SWBT	VRZN
PRICE CAP	\$0.36	\$0.11	\$0.09	\$0.46	\$0.26	\$0.30
PRICE FLEX	\$0.43	\$0.12	\$0.12	\$0.46	\$0.26	\$0.35

### Comparable Global Crossing long haul rate:

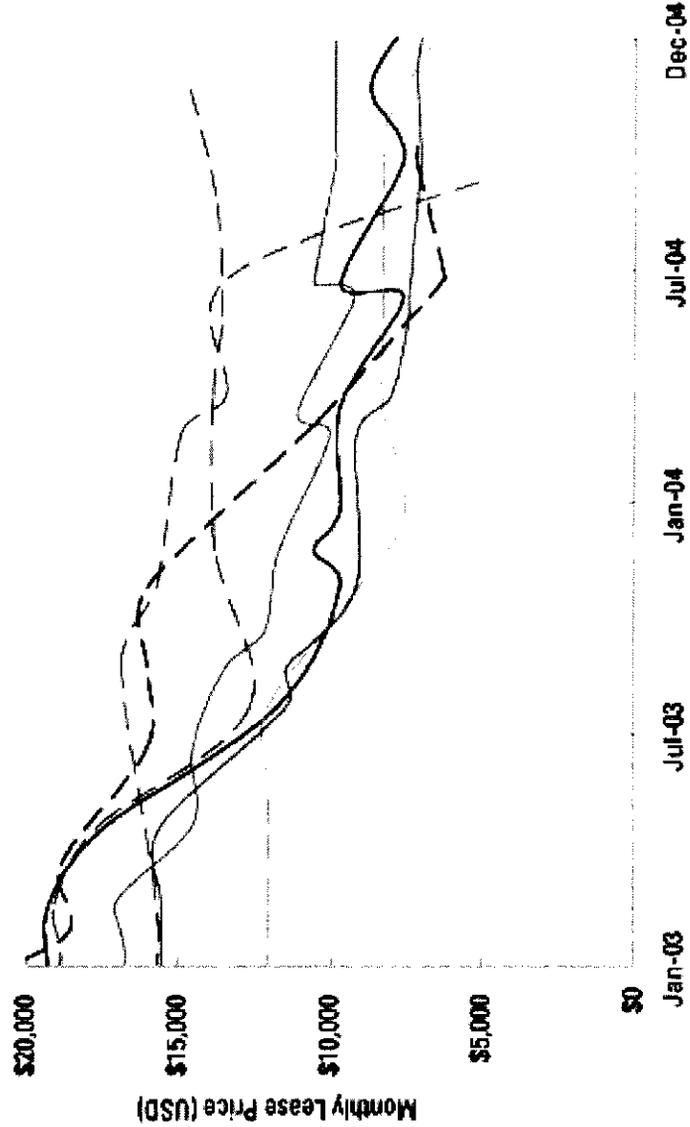
**DS1: \$0.0275 per DS0 circuit mile**

**DS3: \$0.0050 per DS0 circuit mile**

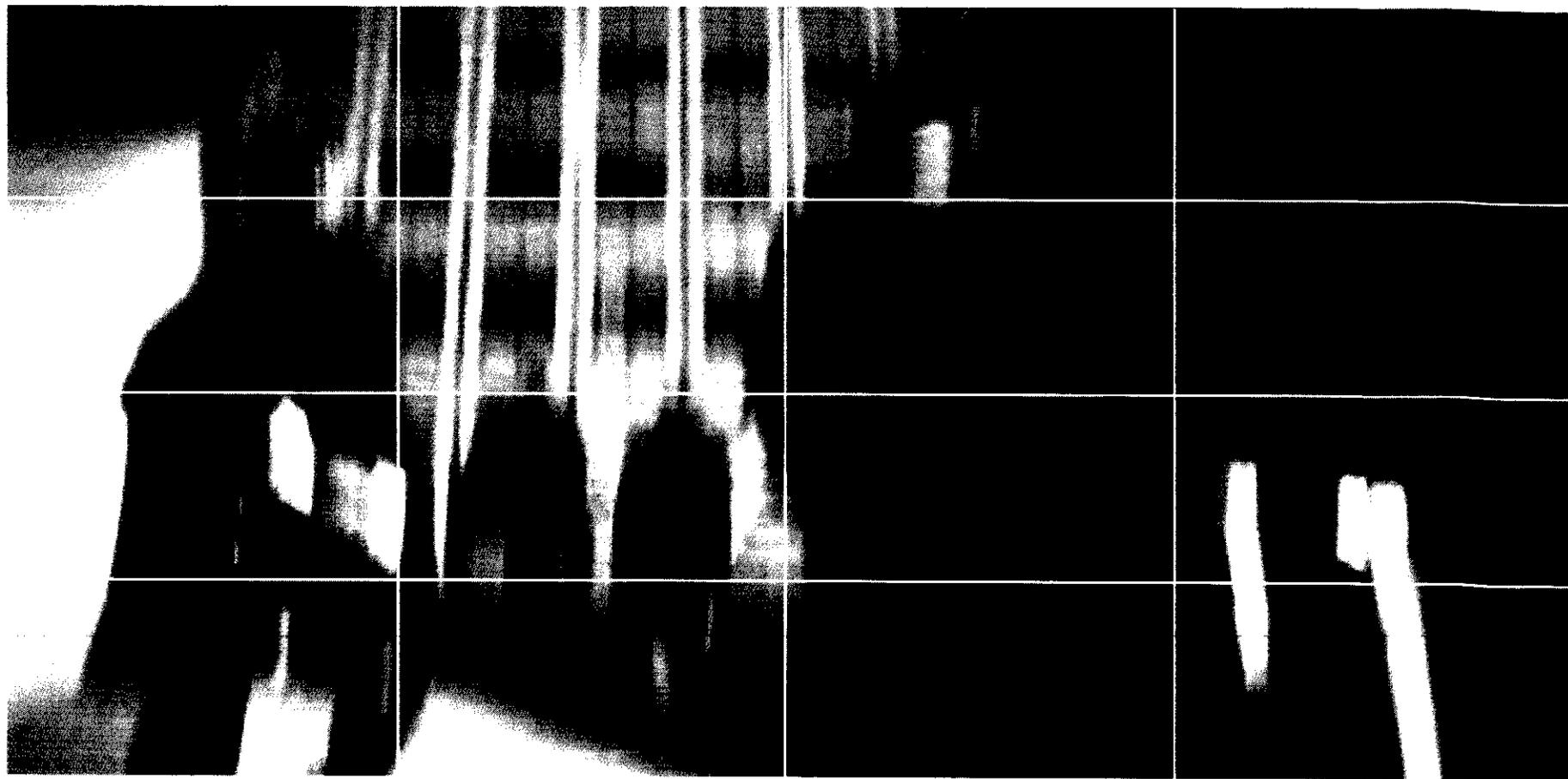
In contrast, long-haul prices have experienced significant declines

Figure 6. Los Angeles-New York OC-3 Lease Prices by Carrier,

2003-2004



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## The impact of the proposed acquisitions by SBC and Verizon

## Impact on Special Access Services

**→ The proposed acquisitions by SBC and Verizon will dramatically alter the competitive supply of special access services**

- In-region, SBC and Verizon each propose to acquire a leading competitor for special access services, eliminating the only competitive option for many customers
- Out-of-region SBC and Verizon will become each other's largest customer, increasing the likelihood of mutually preferential treatment
- If the Department fails to mitigate these structural changes, the merged parties will dominate the special access market and the regulatory arena
  - The proposed acquisitions eliminate the two carriers with the greatest incentive, resources, knowledge and ability to challenge existing special access pricing practices before the FCC.
  - Remaining carriers do not have the resources, knowledge or ability to engage in lengthy regulatory proceedings and litigation

## Impact on the Enterprise Market

**→ The proposed acquisitions by SBC and Verizon will dramatically alter the incentives and ability for the combined companies to discriminate against their enterprise customer competitors**

- The majority of enterprise customers operate in SBC and Verizon's territory and already use AT&T or MCI for at least one service
- Currently, -- [redacted] -- % of Global Crossing's revenue derived from its enterprise sales is paid out in access costs
- Further price squeeze by SBC and Verizon will effectively eliminate competition for enterprise customers



## Remedies

# Potential Remedies

## → Price cap regulation of special access services offered by the merged entities

- Re-initialize benchmark rate
- Territory-wide volume and term discounts
- Eliminate commitments and other restrictive terms

## → Network/services split of SBC and Verizon

- Eliminates incentive to discriminate against downstream competitors
- Equalizes access costs

## → Dark fiber sales

- SBC and Verizon do not sell dark fiber
- Dark fiber allows customers to better manage the economics of special access on a market-specific basis
- Less complex than lit fiber divestiture

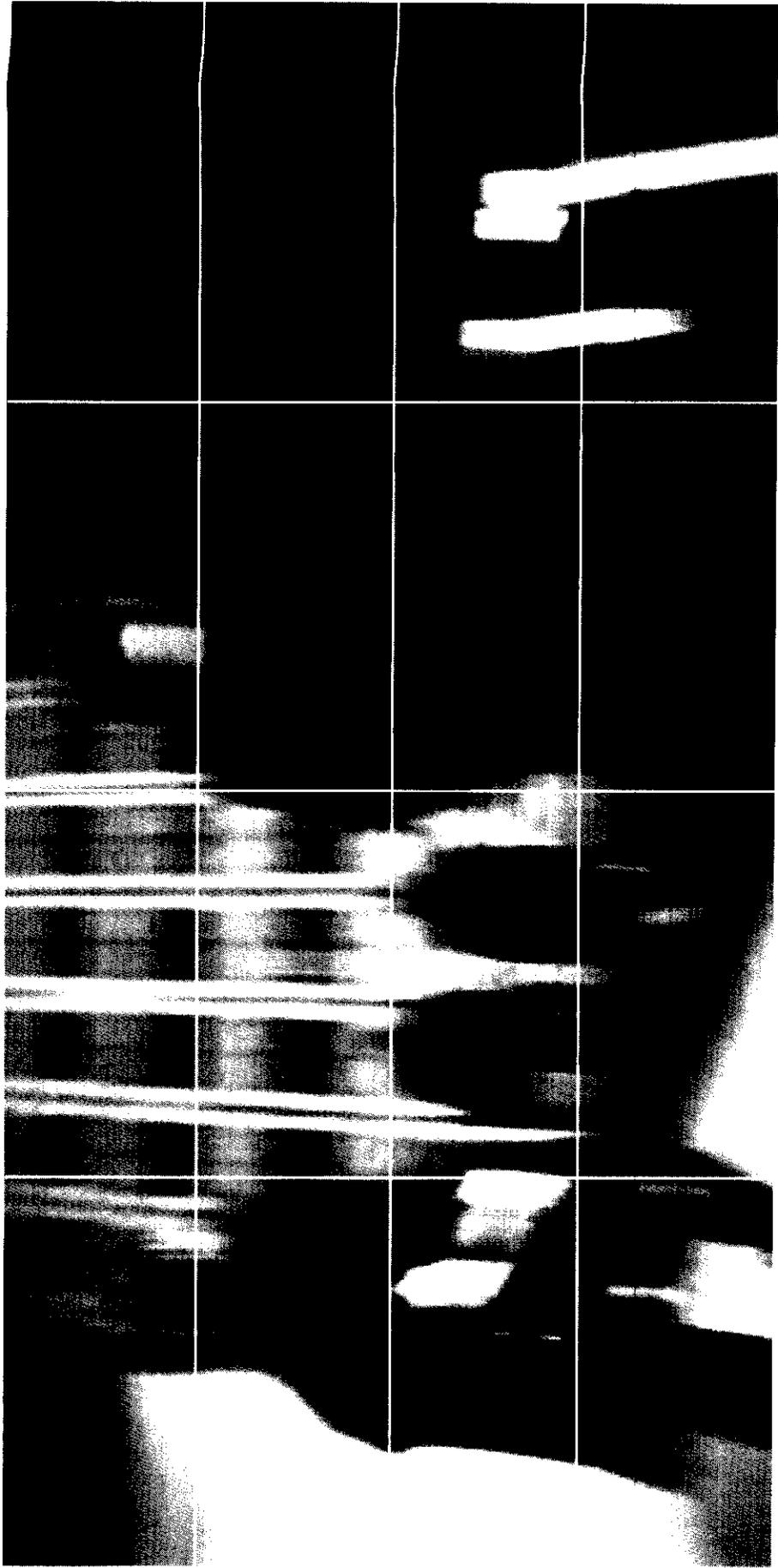
## → Price transparency

## → Divestiture of facilities alone is extremely complex and subject to gaming and abuse

- Facilities are not easily segregated
- Maintenance of facilities and equipment
- Circuit inventory, maps, location information, etc.
- Management of the sales process

## → Divestiture of customers presents its own challenges

- Customer opposition
- Binding the customer to the purchaser
- Separating service bundles



## Additional Issues

## Switched access charges

**→ The mergers increase the incentive and ability of SBC and Verizon to discriminate in the application of switched access charges**

- SBC and Verizon seek to impose access charges on VoIP traffic
- SBC and Verizon do not impute switched access charges into their own retail VoIP service offerings
- By acquiring the largest IXCs, SBC and Verizon become the largest payers of switched access charges to themselves and to each other
- Usage-based, above-cost access charges increase the costs of VoIP providers beyond prevailing retail rates for VoIP services
- Post-merger, SBC and Verizon will control customer ingress and egress to the Internet as well as the largest Internet backbone networks themselves

## Internet backbone services

**→ The vertical integration of SBC and Verizon's retail customer base with AT&T and MCI's Internet backbone gives rise to a new class of Internet service provider that is peerless**

- SBC and Verizon have the largest customer base (wireline and wireless)
- SBC and Verizon have the largest DSL customer base
- AT&T and MCI have the largest backbone networks
- SBC and Verizon will control customer ingress and egress to the Internet as well as the largest Internet backbone networks
- Exclusive peering between SBC and Verizon will increase the costs of existing Tier 1 Internet backbone providers