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Federal Communications Commission  
Office of Secretary

VIA HAND DELIVERY

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

ORIGINAL

*Re: Verizon Communications Inc. and MCI, Inc., Applications for Approval of Transfer of Control, WC Docket No. 05-75*

Dear Ms. Dortch:

Attached is a white paper addressing issues associated with the impact of this transaction on special access service. This paper is an effort to collect in one place the points made in a number of previous submissions, including the application and reply, responses to data requests, and responses to ex parte submissions by other parties.

Sincerely,

Dee May  
Verizon

Curtis Groves  
MCI

Enclosure

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## SPECIAL ACCESS WHITE PAPER

This white paper addresses the issues that the Verizon/MCI transaction raises with respect to special access services. It demonstrates that, although MCI operates local fiber networks in a number of cities in Verizon's region and supplies special access using those facilities, the transaction will not substantially lessen competition for special access services themselves or for the retail voice and data services that are provided using special access as an input.

This paper is organized in five parts. Part I provides a general introduction about special access and describes Verizon's and MCI's respective special access businesses.<sup>1</sup> It first describes the special access services that Verizon provides to carrier and non-carrier customers. It next describes MCI's overlapping local fiber networks in Verizon's region and the extent to which MCI uses those facilities to provide special access services to such customers.

Part II explains why Verizon's acquisition of MCI's local fiber assets will not substantially lessen competition for special access services. MCI's local fiber networks in Verizon's region are of limited competitive significance. In the overwhelming majority of locations where MCI has deployed fiber, there are many other competitive fiber suppliers that are either already serving those exact locations, or that have nearby fiber facilities that could readily be extended there. And even though this may not be the case for a limited number of locations, such locations are so geographically dispersed and account for such a small percentage of overall capacity and demand that they are not economically meaningful. Verizon's special access prices are further constrained by a comprehensive regulatory regime administered by the

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<sup>1</sup> For purposes of this white paper, local private line services will also be treated as special access. There is no generally accepted definition of a private line service, which is often used interchangeably with special access or dedicated access. Verizon offers what it characterizes as a local private line service as an intrastate service.

FCC. The FCC both regulates special access services directly and, where it concludes the statutory standards are met, also requires Verizon to provide unbundled access to high-capacity facilities that competing carriers may use to provide special access services of their own.

Part III addresses the vertical aspects of the transaction. It explains that the combination of Verizon's and MCI's largely complementary businesses is overwhelmingly pro-competitive and will make the combined company a more vibrant competitor for enterprise customers both within and outside of Verizon's franchise territory. Competition for special access services, buttressed by existing regulations, means that the increased vertical integration that Verizon achieves as a result of this transaction will not lead it to discriminate against competitors who purchase special access services from Verizon to provide competing retail voice and data services that use special access as an input.

Part IV explains why the combination of Verizon's and MCI's retail business units will not substantially lessen competition for any of the retail voice or data services that are provided using special access as an input. Verizon's and MCI's retail enterprise businesses are largely complementary; the two companies compete for the same customers and services to only a limited extent. To the limited extent that Verizon and MCI do compete, there are multiple other providers competing as well, including traditional interexchange carriers, such as AT&T, Sprint, and Qwest, newer network operators such as Global Crossing, Level 3, and Wiltel, competitive local exchange carriers, such as XO and Time Warner Telecom, network integrators and managed service providers, such as EDS, IBM, Accenture, and Lockheed, international carriers, such as BT and France Telecom/Equant, and equipment manufacturers and value-added resellers, such as Lucent and Nortel. Moreover, any attempts to raise prices following the transaction for retail services that are provided using special access are further constrained by the

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fact that the major customers of these services – large enterprises – are very sophisticated and typically require service in multiple locations across the country including places in which a combined Verizon/MCI will not have facilities.

Part V explains that, to the extent there are concerns about competition for special access services, the remedies that some competitors have suggested, including some form of divestiture of MCI's local fiber, would impose substantial and needless costs and would raise extremely serious issues on their own terms. The divestiture proposals have the potential to be rife with inefficiencies and costs that will harm MCI's customers without any guarantee that they will have a material effect on competitive conditions. The considered choices of customers to purchase access services from MCI, over MCI facilities, should not be overridden by a divestiture unless absolutely necessary to solve a serious competitive problem – conditions that are not remotely present here.

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**ATTACHMENTS**

- Attachment 1 – Maps of Competitive Fiber in 30 MSAs
- Attachment 2 – Map of Verizon’s Los Angeles Out-of-Franchise Fiber Network
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## I. INTRODUCTION AND BACKGROUND

Special access, as used here, refers to a dedicated point-to-point facility provided to carrier (*i.e.*, wholesale) or non-carrier (*i.e.*, retail) customers, whether provided by an incumbent LEC ("ILEC") such as Verizon or a competitive carrier such as MCI.<sup>2</sup> Traditionally, special access was used to provide connections between an end user and an interexchange carrier's ("IXC's") point-of-presence ("POP").<sup>3</sup> Today, special access also is used to provide connections directly between two end-user locations, between end users and competitive local exchange carrier ("CLEC") networks and Internet service providers ("ISPs"), and by various types of carriers, including wireless providers, to make connections within their own networks and to connect their networks to other carriers.<sup>4</sup> For all of these different kinds of carriers, special access provides a conduit through which they may provide other types of services, including local and long-distance voice and data services of all varieties.

As a result of both market factors and regulatory history, competition for special access began much earlier than competition for other types of local exchange services.<sup>5</sup> As the FCC has noted, the customers for special access are other carriers "and large businesses, not residential or

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<sup>2</sup> See *Investigation of Special Access Tariffs of Local Exchange Carriers*, Memorandum Opinion and Order, 8 FCC Rcd 4712, ¶ 2 (1993) (Special access "primarily involves the provisioning of so-called 'private lines,' that is, facilities or network transmission capacity dedicated to the use of an individual customer.").

<sup>3</sup> See *Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers*, Fifth Report and Order and Further Notice of Proposed Rulemaking, 14 FCC Rcd 14221, ¶ 8 (1999) ("*Pricing Flexibility Order*"), *aff'd*, *WorldCom, Inc. v. FCC*, 238 F.3d 449 (D.C. Cir. 2001) ("Special access services do not use local switches; instead they employ dedicated facilities that run directly between the end user and the IXC's point of presence (POP).").

<sup>4</sup> See *Special Access Rates for Price Cap Local Exchange Carriers*, Order and Notice of Proposed Rulemaking, WC Docket No. 05-25, FCC 05-18, ¶ 3 (rel. Jan. 31, 2005) ("*Special Access NPRM*") ("[B]usiness customers, commercial mobile radio service (CMRS) providers, interexchange carriers (IXCs), and competitive LECs all use special access as a key input in many of their respective service offerings.").

<sup>5</sup> See, e.g., *Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, Report and Order and Order on Remand and Further Notice of Proposed Rulemaking, 18 FCC Rcd 16978, ¶¶ 44, 45 (2003) ("*Triennial Review Order*") ("Within the enterprise market for telecommunications services, new entrants began competing with the incumbent LECs in the mid-1980s.").

small business end users.”<sup>6</sup> These customers tend to be highly concentrated geographically. In the case of Verizon, for example, nearly 80 percent of the demand for high-capacity special access services (as measured by revenues) is concentrated in a little over 8 percent of the wire centers where Verizon bills high-capacity special access (or 532 wire centers out of roughly 6,300 total). *See* Map 1.<sup>7</sup> All of MCI’s local fiber facilities in Verizon’s region have been deployed in metropolitan areas that contain these concentrated pockets of demand. *See* Map 1.

The vast majority of special access circuits and revenues are high-capacity, which as used here refers to DS1 (*i.e.*, 1.544 Mbps) capacity or above. In the case of Verizon, for example, more than 90 percent of special access revenues are generated from DS1 circuits or above.<sup>8</sup> In the case of MCI, at least 95 percent of special access revenues are generated from DS1 circuits or above.<sup>9</sup> These high-capacity special access services are provided predominantly over fiber facilities. Although DS1 circuits may, as a technical matter, be provided over copper, the vast majority (more than 80 percent) of the DS1 circuits – and all of the DS3 (*i.e.*, 44.736 Mbps, equivalent to 28 DS1s) and higher circuits – that Verizon provides are provisioned over fiber facilities. Virtually all of the special access that MCI provides likewise is provisioned over fiber.

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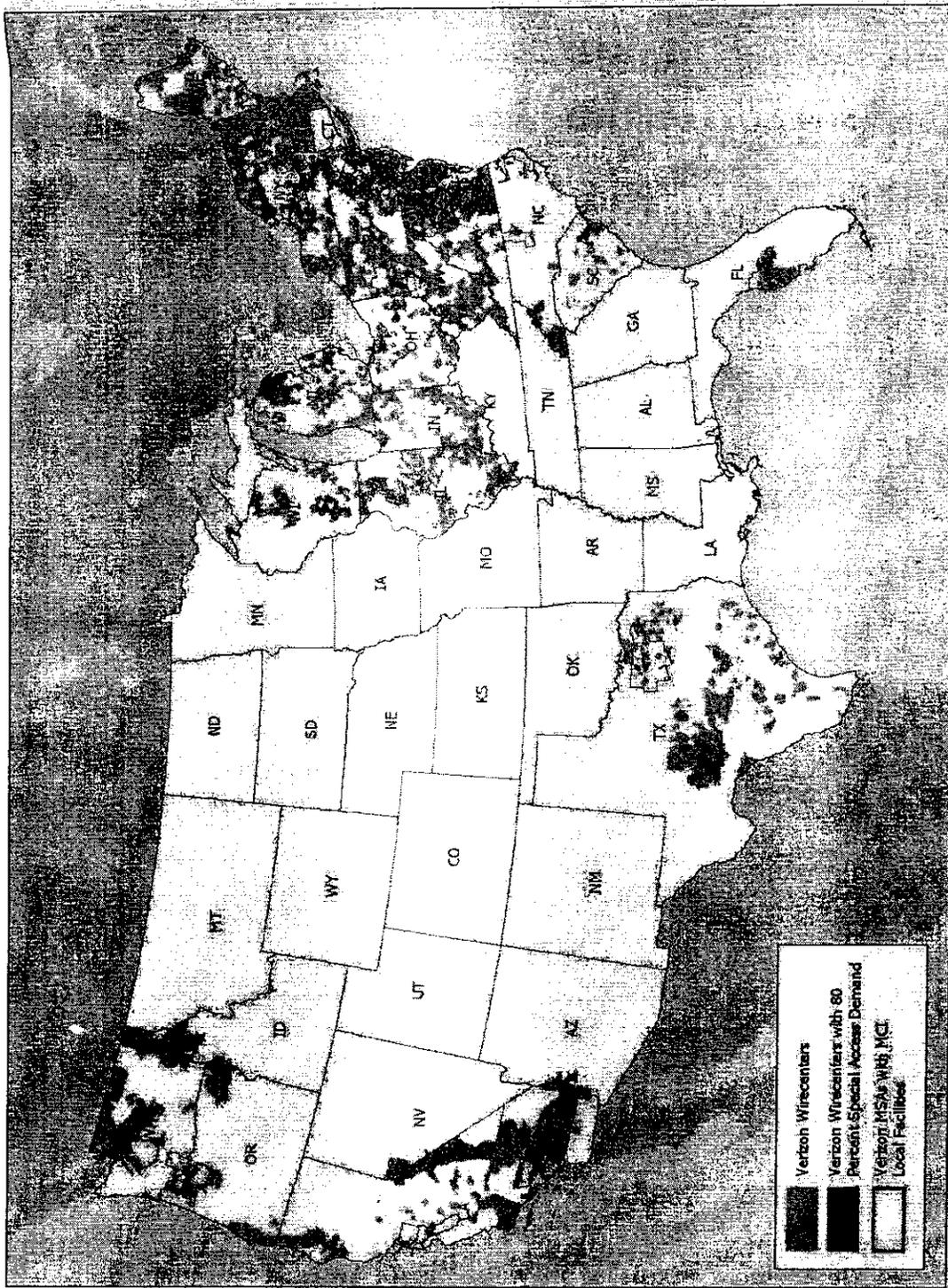
<sup>6</sup> *Pricing Flexibility Order* ¶ 142.

<sup>7</sup> *See* Comments of Verizon at 24 and Declaration of Quintin Lew ¶ 10, *Special Access Rates for Price Cap Local Exchange Carriers*, WC Docket No. 05-25 (FCC filed June 13, 2005).

<sup>8</sup> *See* Verizon Response to FCC Specifications, Exhibits 5.A.3 & 5.A.6. This calculation excludes data for retail private line services because revenues for these services were not available by capacity.

<sup>9</sup> *See* MCI Response to FCC Specifications, Exhibit 5(a). An additional 2 percent of revenue was generated from SONET, video, and other services; revenues for these services were not available by capacity.

Map 1. Concentration of Verizon Special Access Demand



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The FCC opened special access to competition in the 1980s, a full decade before passage of the Telecommunications Act of 1996.<sup>10</sup> The first “competitive access providers” or “CAPs” were formed in the mid-1980s, shortly after the breakup of the Bell System. By the early 1990s, the FCC was already proclaiming that CAPs “now offer access services to large business customers in the central business districts of many major cities” and that many customers “do not use LEC facilities at all to connect their customer location directly with their long-distance carrier.”<sup>11</sup>

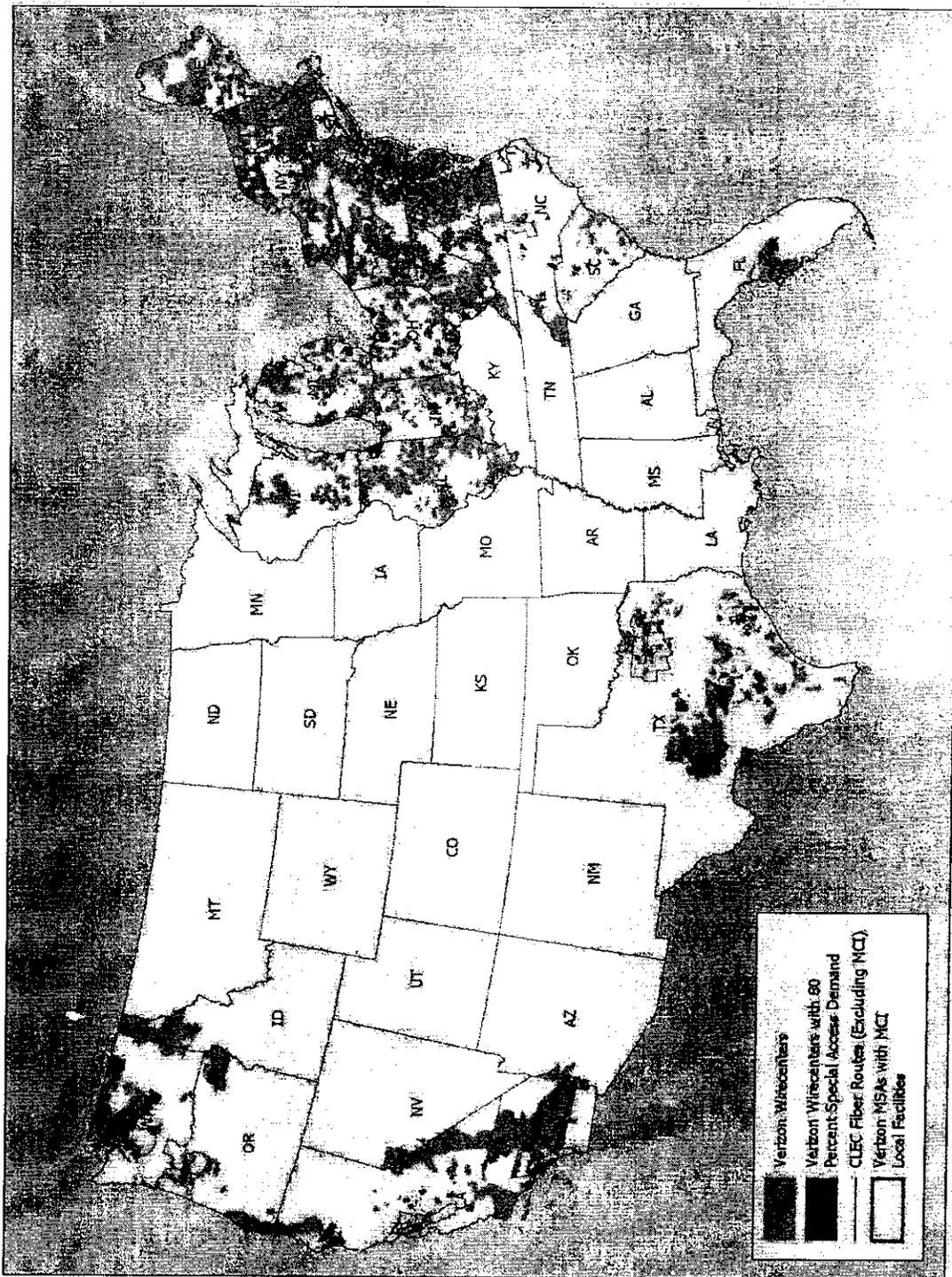
Today, MCI is just one of more than a hundred competitive suppliers of special access nationwide. Both MCI’s and other competitors’ networks are concentrated overwhelmingly in dense urban areas, where the businesses that use special access services are heavily concentrated. In fact, as described in Section II.B.1 below, in every metropolitan area in which MCI has deployed fiber there is at least one other competitive supplier of special access with its own fiber, and in most cases several other such suppliers. Thus, while competitive networks are less extensive than ILEC networks overall, with respect to those areas where demand for special access is concentrated, they invariably have a significant presence and are serving a substantial amount of the total demand for special access services. *See* Map 2.

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<sup>10</sup> *See Cox Cable Communications, Inc.*, Memorandum Opinion, 102 FCC2d 110, ¶ 40 (1985), *vacated as moot*, 61 Rad. Reg. 967 (1986).

<sup>11</sup> *Expanded Interconnection with Local Telephone Company Facilities*, Notice of Proposed Rulemaking and Notice of Inquiry, 6 FCC Rcd 3259, ¶ 2 (1991); Richard M. Firestone, Chief, Common Carrier Bureau, FCC, remarks before the Mid-America Regulatory Conference (June 4, 1991).

Map 2. Competitive Fiber in Verizon's Service Area



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## A. Overview of Verizon's Special Access Business

Verizon provides special access services predominantly to carrier customers (*i.e.*, on a wholesale basis). In 2004, Verizon's special access revenues were approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] (including private line revenues).<sup>12</sup> Approximately 70 percent of this total, or roughly [BEGIN CONFIDENTIAL] [END CONFIDENTIAL], was generated from the provision of special access to other carriers.<sup>13</sup> The remaining 30 percent, or roughly [BEGIN CONFIDENTIAL] [END CONFIDENTIAL], was generated from the provision of special access to non-carrier customers, primarily medium and large businesses.

### 1. Verizon's Provision of Special Access to Carrier Customers

Verizon's Wholesale Markets is responsible for the provision of special access to carrier customers. Wholesale Markets also is responsible for providing switched access,<sup>14</sup> Unbundled Network Elements ("UNEs"), and resale. Special access now represents the single largest component of Verizon's total wholesale business.<sup>15</sup>

Other carriers typically obtain special access from Verizon for two main purposes. First, they use special access to extend the reach of their own networks or those of other alternative providers they may be using. For example, a carrier will purchase special access so that it can turn around and provide to its business customers a connection between its network and an office

<sup>12</sup> See Verizon Response to FCC Specifications, Exhibits 5.A.3, 5.A.6 & 5.C.2.

<sup>13</sup> With respect to Verizon's interstate special access services, approximately 80 percent of the revenues are generated from carrier customers.

<sup>14</sup> Whereas special access services use dedicated facilities, switched access services "use local exchange switches to route originating and terminating interstate toll calls." *Pricing Flexibility Order* ¶ 8.

<sup>15</sup> In 2004, switched access accounted for approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] in revenues, and UNEs and resale accounted for approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL]. See *2005 Wholesale Access Marketing* (Jan. 26, 2005), VZFCC-074-002179 at 0002185; Verizon Response to FCC Specifications, Exhibit 3.A.1.

building that its own network does not serve directly. Second, carriers may use special access to transport switched traffic that is consolidated from many smaller customers. For example, both wireless providers and interexchange carriers purchase special access so that they can make connections within their networks, which are used to carry the ordinary switched wireless and long-distance calls made by their customers.

The overwhelming majority of special access that Verizon provides to carrier customers – more than 95 percent (in revenue terms) – is provided at the DS1 level or above. Currently, about half of this total is from DS1 services themselves.<sup>16</sup> But much of the growth for special access is from very high capacity services – OCn circuits and SONET rings. Between 2003 and 2004, for example, SONET accounted for about [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of the growth in Verizon's special access revenues from carrier customers, even though it accounts for only about [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of the embedded base.<sup>17</sup> See Figure 1. Although revenues from DS1 circuits are still growing, much of this is attributable to transport provided to wireless providers.

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<sup>16</sup> In revenue terms, 52 percent of the special access that Verizon provides on a wholesale basis is at the DS1 level; 36 percent is at the DS3 level; and 7 percent is at the OC3 level or higher. See Verizon Response to FCC Specifications, Exhibit 5.A.6. Revenue data for private lines provided by Verizon's Carrier and Local Wholesale organizations were not available by capacity and are excluded from this calculation.

<sup>17</sup> See 2005 Wholesale Access Marketing (Jan. 26, 2005), VZFCC-074-0002179 at 0002185.

[BEGIN CONFIDENTIAL]

[END CONFIDENTIAL]

Verizon provides special access either pursuant to generally available tariffs or, in the locations where Verizon has obtained pricing flexibility, individually negotiated contracts, which then get filed as generally available tariffs. With respect to interstate services, Verizon uses the same tariffs for both carrier (*i.e.* wholesale) and non-carrier (*i.e.*, retail) customers.<sup>18</sup> Although Verizon has designed 12 contract tariffs specifically for wholesale customers, the terms of these contract tariffs are not specifically limited to wholesale customers and may be used by retail customers as well. Likewise, wholesale customers may purchase service from one of the 14 Verizon contract tariffs initially designed for retail customers, as well as from one of the 12 contract tariffs that were introduced with no specific customer group in mind.

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<sup>18</sup> Verizon provides intrastate private line services exclusively to retail customers and on a resale basis to wholesale customers.

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## 2. Verizon's Provision of Special Access to Business Customers

Verizon provides special access directly to business customers (*i.e.*, on a retail basis) through its Enterprise Solutions Group ("ESG") and Retail Markets group.<sup>19</sup> ESG and Retail Markets typically sell special access as part of broader service offerings that include some mix of local and long-distance voice and data services.<sup>20</sup> In 2004, Verizon earned approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] from the sale of special access to business customers, of which approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent was provided through ESG and approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent through Retail Markets.<sup>21</sup>

Special access constitutes only a small fraction of the communications services that ESG and Retail Markets customers purchase. In 2004, special access accounted for only about [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of total revenues generated by ESG customers (or [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] out of [BEGIN CONFIDENTIAL] [END CONFIDENTIAL]), and only about [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of total revenues generated by Retail Markets customers (or [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] out of [BEGIN CONFIDENTIAL] [END CONFIDENTIAL]).<sup>22</sup> Moreover, particularly with respect to ESG customers and larger Retail Markets customers that typically have multiple locations throughout the U.S., Verizon accounts

<sup>19</sup> As described in Verizon's response to FCC Specification 1.a, ESG has primary responsibility for larger business and institutional customers that generally spend more than \$100,000 per year with Verizon, while Retail Markets has primary responsibility for serving business customers that generally spend less than that amount.

<sup>20</sup> These offerings include MPLS, Ethernet, SONET Ring, and Frame Relay voice and data networks, long-distance and toll-free voice services, and Internet access.

<sup>21</sup> See Verizon Response to FCC Specifications, Exhibits 5.A.3 & 5.C.2.

<sup>22</sup> See Verizon Response to FCC Specifications, Exhibits 5.A.3 & 5.C.2 (special access revenue); Verizon Response to FCC Specifications, Exhibit 3.A.1 (total ESG and Retail Markets revenue).

for only a fraction of total communications spending by these customers. As is the case with Verizon's provision of special access on a wholesale basis, the vast majority of special access that Verizon provides on a retail basis – approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL], in revenue terms – is at the DS1 level or higher.<sup>23</sup>

As noted above, Verizon provides special access to retail customers pursuant to the same tariffs used for wholesale customers. Verizon is permitted to develop contract tariffs in response to the needs of particular customers, but these contract tariffs must then be made available to all similarly situated retail and wholesale customers.<sup>24</sup> Thus, to the extent that Verizon seeks to compete aggressively for retail customers by lowering special access prices, those same discounts will redound to wholesale customers as well.

**B. Overview of MCI's Local Fiber Networks and Special Access Business**

Like Verizon, MCI has separate business units responsible for retail and wholesale accounts. MCI has three principal retail business units serving domestic customers – Global Accounts, Commercial Markets, and Government Markets.<sup>25</sup> MCI's Wholesale segment consists of sales to facilities-based carriers, resellers, and Internet Service Providers. MCI also has a System Integrators business unit that consists of customers that resell services combined with their own information technology ("IT") services and equipment. For purposes of this white

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<sup>23</sup> In revenue terms, approximately 40 percent of Verizon's retail special access is at the DS1 level; 26 percent is at the DS3 level; and 20 percent is at the OC3 level or higher. See Verizon Response to FCC Specifications, Exhibit 5.A.3. This calculation excludes data for retail private line services because revenues for these services were not available by capacity.

<sup>24</sup> These requirements are described in more detail in Section II.E, *infra*.

<sup>25</sup> Global Accounts consists entirely of [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] U.S.-based multinational corporations that are MCI's largest customers. Commercial Markets handles all of MCI's other business customers, and Government Markets handles federal government agencies as well as large state accounts, quasi-governmental customers (such as the World Bank), and various cities, counties, and other governmental entities. MCI's International group serves business, government entities, and telecommunications carriers outside the U.S. See MCI's Response to FCC Specification 1.a.

paper, special access provided to Systems Integrators will be treated as wholesale given the fact that these entities (as demonstrated below) now compete extensively with traditional carriers.

*1. MCI's Local Fiber Networks*

MCI currently operates fiber networks in 80 local market areas throughout the U.S.<sup>26</sup>

MCI uses these networks to offer a wide range of telecommunications services to both retail and wholesale customers. First, MCI uses its local fiber networks to connect customers to MCI's long-haul voice, data, and IP networks. Second, MCI uses its local fiber networks to offer local services, including local private line services, special access services, metropolitan area frame relay services, and switched local exchange services, to retail business customers. Third, MCI uses its local fiber networks to offer Metro Private Line services to carrier customers.

MCI acquired much of its local fiber facilities from some of the early competitive access providers. MCI (then WorldCom) acquired Metropolitan Fiber Systems in December 1996 and Brooks Fiber in January 1998.<sup>27</sup> Today, MCI's local fiber networks consist of nearly [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] route miles of fiber and connect to approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] office buildings nationwide.<sup>28</sup> Nationwide, MCI has established [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] "on-net" fiber-based collocations – arrangements where MCI runs fiber

<sup>26</sup> Declaration of Jonathan Powell & Stephen M. Owens ¶ 4 ("Powell/Owens Decl."), attached to Public Interest Statement, WC Docket No. 05-75 (FCC filed Mar. 11, 2005).

<sup>27</sup> See WorldCom Press Release, *WorldCom/MFS Merger Completed* (Dec. 31, 1996); WorldCom Press Release, *WorldCom/Brooks Fiber Merger Completed* (Jan. 30, 1998).

<sup>28</sup> As of June 2005, MCI served a total of [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] office buildings via fiber plus [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] office buildings via copper.

from its network directly into an ILEC's central office where it is connected to MCI network facilities that reside in a space leased from the ILEC.<sup>29</sup>

Without exception, MCI's local fiber networks span only a small part of each MSA in which they are located. MCI has focused its local network construction on those areas in which large numbers of existing and potential customers are located and in which there is high demand for communications services. Typically, such concentrations of high demand are found in the downtown core of cities or in certain suburban areas in which there are large numbers of customers in the financial, high technology, or other communications-intensive industries. In each locality, MCI has further concentrated its local fiber networks to serve those buildings that have the highest levels of demand, such as large office buildings, corporate campuses, and carrier hotels.

MCI operates local fiber networks that are largely or wholly within Verizon's territory in 19 MSAs.<sup>30</sup> MCI operates local fiber networks in six additional MSAs that are largely within the territory of another ILEC – Qwest, SBC, or BellSouth – but have small sections in Verizon territory.<sup>31</sup> MCI also has collocations, but no local fiber, in five additional MSAs in Verizon's region and which MCI serves either "off-net," over facilities leased from another carrier, or which are served directly by MCI's long-distance network.<sup>32</sup> In total, MCI has deployed local facilities in 30 MSAs in which Verizon operates as the ILEC in some part of the MSA.

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<sup>29</sup> Powell/Owens Decl. ¶ 11. As of June 2005, MCI had obtained fiber-based collocation in [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] central offices.

<sup>30</sup> The 19 MSAs are: Albany, NY; Allentown, PA; Baltimore, MD; Boston, MA; Buffalo, NY; Manchester, NH; New York, NY; Philadelphia, PA; Pittsburgh, PA; Portland, ME; Providence, RI; Richmond, VA; Springfield, MA; Syracuse, NY; Tampa, FL; Trenton, NJ; Washington, D.C.; and Worcester, MA.

<sup>31</sup> The six MSAs are: Dallas, TX; Durham, NC; Los Angeles, CA; Portland, OR; Seattle, WA; and Bridgeport, CT.

<sup>32</sup> The five MSAs are: San Francisco, CA; Santa Barbara, CA; San Jose, CA; Poughkeepsie, NY; and Reading, PA.

As of December 2004, MCI's local networks connected directly to approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] buildings in Verizon's territory, which MCI refers to as "lit" or "on-net" buildings.<sup>33</sup> This figure includes approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] office buildings and approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] Verizon central offices.<sup>34</sup> Approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of these office buildings and central offices are in the former Bell Atlantic (*i.e.*, Verizon-East) region.<sup>35</sup> More than [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of MCI's fiber-lit buildings in Verizon's region are concentrated in just five MSAs – New York, Washington, Boston, Tampa, and Providence.

Although MCI's local fiber networks consist primarily of fiber that MCI either acquired or deployed itself, in some cases MCI also leases dark fiber from third parties and integrates it into its network. In Washington, DC, for example, MCI leases approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] route miles of local fiber from third parties, which represents approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of MCI's local fiber in that metropolitan area. MCI refers to buildings that it connects with leased dark fiber and MCI-owned electronics as on-net buildings, and buildings that MCI connects with both leased facilities and leased electronics as "off net" buildings.

<sup>33</sup> This figure includes both fiber-served buildings and a limited number (about 70) of buildings served over copper facilities. It also may include some buildings that have MCI fiber but are not currently active, *i.e.*, have no transmission electronics. MCI Response to FCC Specification 6(e).

<sup>34</sup> As of June 2005, MCI had approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] lit buildings in Verizon's region and approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] fiber-based collocation arrangements in Verizon's central offices.

<sup>35</sup> Reply Declaration of Jonathan P. Powell, Peter H. Reynolds, and Edwin A. Fleming ¶ 5 ("Powell et al. Reply Decl."), *attached to* Joint Opposition of Verizon Communications Inc. and MCI, Inc. to Petitions To Deny and Reply to Comments, WC Docket No. 05-75 (FCC filed May 24, 2005); MCI Response to FCC Specifications, Exhibit 6(a)(3).

MCI extends its local fiber networks to additional buildings as MCI obtains new customers in those buildings. Between May 2003 and year-end 2004, MCI extended fiber to [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] new buildings nationwide, of which [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] were in Verizon's region. In 2005, MCI has plans to extend fiber to approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] additional buildings in or near Verizon's service territory.<sup>36</sup>

## 2. *MCI's Provision of Special Access*

MCI does not market any of its services as "special access," but does offer a service – "Metro Private Line" – that is equivalent to Verizon's special access service. MCI's Metro Private Line service provides dedicated point-to-point and point-to-multipoint DS1, DS3, and SONET circuits between carrier hotels, ILEC central offices, interexchange carrier POPs and end user locations. MCI also uses the same high-capacity facilities when it provides other retail services to business customers that are provided using special access, such as ATM, Frame Relay, dedicated Internet access, interLATA private line, and local and long-distance voice. As discussed below, however, in these circumstances MCI does not distinguish the special access component from the other components of service.

MCI provides special access using a combination of its own local network facilities and the facilities of third parties, including ILECs such as Verizon. MCI classifies special access circuits into four different categories, depending on the mix of MCI facilities and third-party facilities that MCI uses. A Type I circuit is provisioned entirely "on-net," *i.e.*, it connects two

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<sup>36</sup> MCI Response to FCC Specifications, Exhibit 6(e)(2). This total represents all approved building adds in the 13 states that make up the former Bell Atlantic territory as well as the five states with the greatest overlap between MCI local networks and Verizon's former GTE territory – California, Texas, Florida, Oregon, and Washington. Some of these buildings may not in fact be within Verizon's territory with these states; MCI has been unable to determine definitively which approved building adds are in Verizon's territory. All of the buildings counted here represent buildings for which the "building add request" has been approved, funding is in place, and the building add is or will be scheduled for completion in 2005.

on-net buildings using only MCI fiber. The other three types of Metro Private Line circuits – Type II, Type III, and Type IV – are provisioned, to varying degrees, using special access circuits obtained from another local carrier – usually, but not exclusively, the ILEC. A Type II circuit connects an on-net building to an off-net building. Most of the circuit is provisioned using MCI’s local fiber, but a small piece is provisioned using the facilities of another local carrier – typically, an ILEC special access “channel termination” that extends MCI’s network to the off-net building. A Type III circuit uses two ILEC channel terminations, to reach an off-net building at each end of the circuit, and MCI fiber in the “middle.” A Type IV circuit uses no MCI facilities; it is simple resale of an ILEC special access circuit.

In 2004, MCI earned approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] from Metro Private Line service, more than [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of which (or [BEGIN CONFIDENTIAL] [END CONFIDENTIAL]) was earned from wholesale customers.<sup>37</sup> Approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] of MCI’s wholesale Metro Private Line revenue is derived from circuits that are entirely on-net and do not use ILEC special access at all, *i.e.*, Type I circuits.<sup>38</sup> Most of the remainder of MCI’s wholesale Metro Private Line revenue is derived from Type II circuits, which generally use only a single channel termination purchased from a third party (usually an ILEC). Less than 2 percent of MCI’s wholesale Metro Private Line revenue is derived from

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<sup>37</sup> See MCI Response to FCC Specifications, Exhibit 5(a).

<sup>38</sup> Powell et al. Reply Decl. ¶ 11.

Type III circuits. And at present, MCI does not actively offer Type IV circuits, *i.e.*, MCI's involvement in the simple resale of ILEC special access services is extremely limited.<sup>39</sup>

MCI's Metro Private Line revenues are generated predominantly from high-capacity services. More than [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of Metro Private Line revenues are generated from the provision of DS1 or higher capacity services, and nearly [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] of such revenues are from the provision of DS3 or higher capacity services. With respect to Metro Private Line services that MCI provides entirely using its own facilities, approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of the revenues from such services are from the provision of DS1 or higher capacity services, and more than [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of such revenues are from the provision of DS3 or higher capacity services. *See* Figure 2.

[BEGIN CONFIDENTIAL]

[END CONFIDENTIAL]

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<sup>39</sup> MCI is currently providing a handful of "grandfathered" Type IV circuits.

In contrast to Verizon, special access represents a small share of MCI's total revenues from sales to other carriers. The bulk of MCI's wholesale revenues is generated instead from the provision of long-distance voice minutes, long-distance private line, and dedicated and dial-up Internet access. In 2004, these three services accounted for approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] in revenues, or approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of MCI's total wholesale revenues. See Figure 3. Special access accounted for only about [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] percent of MCI's total wholesale revenues in 2004.

[BEGIN CONFIDENTIAL]

[END CONFIDENTIAL]

### 3. *MCI's Purchase of Special Access*

As noted above, MCI obtains special access from third parties in order to extend the effective reach of its own network facilities. In fact, MCI serves many more end-user locations using special access purchased from third parties than it serves using its own facilities.

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Nationwide, MCI serves approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] end-user locations using third-party special access, compared to only [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] MCI-lit office buildings. In Verizon's region, MCI serves approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] end-user locations using third-party special access, compared to approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] MCI-lit buildings.<sup>40</sup>

MCI purchases special access from Verizon out of various general and contract tariffs. MCI avails itself of various volume and term discounts in these tariffs, which vary depending on the particular service and location.<sup>41</sup> MCI also obtains additional discounts under Verizon's Total Billed Revenue ("TBR") plans, which are plans that provide year-end credits to customers who meet certain spending targets for certain special access products. As described below, all of the discounts that MCI receives are made available to any other carrier that makes the same purchase commitments as MCI.

## II. VERIZON'S ACQUISITION OF MCI'S LOCAL FIBER ASSETS WILL NOT SUBSTANTIALLY LESSEN COMPETITION FOR SPECIAL ACCESS SERVICES

The principal concern raised with respect to the Verizon/MCI transaction centers on MCI's high-capacity local fiber networks as a rival to Verizon's networks. MCI's capacity will not disappear from the market, but will no longer be independent. Opponents of the transaction

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<sup>40</sup> Within the 80 local market areas in which MCI operates local network facilities, it serves approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] off-net locations, approximately [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] of which are in Verizon's territory.

<sup>41</sup> For example, MCI obtains channel terminations under [BEGIN CONFIDENTIAL] [END CONFIDENTIAL], in the former NYNEX region and under [BEGIN CONFIDENTIAL] [END CONFIDENTIAL], in the former Bell Atlantic region.