



LEXICON

Verizon/MCI Merger: Analysis of Special Access

Gustavo Bamberger

Dennis Carlton

Allan Shampine

September 9, 2005

REDACTED VERSION

Major Conclusions

The Verizon/MCI merger does not raise significant competitive concerns regarding special access.

- MCI serves a limited number of commercial buildings with its own network.
- Numerous other CLECs have deployed fiber networks in Verizon's region.
 - The vast majority of fiber-lit buildings served by MCI are also served by other CLECs and/or are located near other fiber networks. The FCC's impairment test also indicates that other CLECs face low barriers in serving most MCI buildings.
 - Thus there are at most a very small number of scattered buildings that potentially raise competitive issues and even these buildings often have competitive alternatives.
- Prof. Wilkie's analysis significantly mischaracterizes the risks of harm to competition in the provision of access services and relies on data that are both inappropriate and inaccurate.

Data Analysis Background

- Verizon, MCI, SBC and AT&T obtained information on fiber-lit buildings served by MCI, AT&T and several other carriers.
 - These include fiber-lit buildings served by certain CLECs that seek to supply access services to other carriers.
 - Some carriers do not report data to other carriers.
- GeoTel reports fiber network routes from information reported by carriers and other sources, such as construction permits.
 - Certain carriers are not reported or are underreported in GeoTel. (AT&T, for example, does not report route information to GeoTel.)
 - GeoTel does not identify dark fiber and IRUs sold to other carriers. (These may be reflected if the purchasing carrier reports its routes to GeoTel.)
 - GeoTel does not distinguish between lit and dark fiber.

Most MCI buildings are already served or readily could be served by other CLECs

[Redacted]

The results are similar even when analysis is limited to the cities selected by Prof. Wilkie

[Redacted]

Most MCI-lit buildings are in close proximity to other CLECs that provide fiber-based access services.

Percent of MCI-lit buildings with non-MCI CLEC fiber within given radius

City	1/10 Mile	1/4 Mile	1/2 Mile
Verizon Territory	67.2%	78.1%	85.6%
Albany	75.0%	90.6%	93.8%
Baltimore	40.0%	44.2%	46.3%
New York	72.2%	79.7%	86.2%
Philadelphia	74.4%	90.4%	96.0%
Pittsburgh	93.3%	97.8%	100.0%
Washington, D.C.	62.6%	79.1%	90.2%

Sources: Altman Vilandrie (GeoTel, MCI, Verizon)

Note: Distances are to GeoTel reported CLEC fiber networks.

Most MCI-lit buildings are close to multiple competitive fiber networks.

Average number of non-MCI CLECs within given radius of MCI-lit buildings

City	1/10 Mile	1/4 Mile	1/2 Mile
Verizon Territory	3.7	5.0	6.0
Albany	1.3	2.3	3.2
Baltimore	2.6	3.1	3.4
New York	6.5	8.9	10.2
Philadelphia	4.1	4.9	5.5
Pittsburgh	1.5	1.9	2.1
Washington, D.C.	2.8	4.1	5.5

Sources: Altman Vilandrie (GeoTel, MCI, Verizon)

Note: Distances are to GeoTel reported CLEC fiber networks.

Prof. Wilkie's analysis significantly mischaracterizes risks of harm to access competition

- Prof. Wilkie and Responding CLECs do not distinguish MCI's use of Verizon's access facilities from MCI's use of its own access facilities.
- Prof. Wilkie only reports separate building totals for MCI in New York City.
 - Prof. Wilkie reports 1,085 MCI-lit buildings in New York City.
 - In fact, MCI serves only **[Redacted]** buildings in New York City using its own facilities.
- For other cities, Prof. Wilkie combines AT&T and MCI buildings.
 - Combined AT&T and MCI figures are misleading since AT&T and MCI are not merging.

MCI's resold connections are not a unique competitive constraint on the pricing of Verizon special access

- Other CLECs can and do provide the same kind of connections.
- There is no basis to the Responding CLECs' claim that MCI has a significant impact on the price of special access because of its ability to use the discount it receives from Verizon for special access to offer low prices in the wholesale market.
 - MCI resells a very limited amount of access services using Verizon facilities to other CLECs.

CONCLUSIONS

- MCI provides access services to only a relatively small number of buildings.
- Numerous other CLECs have deployed fiber networks in Verizon's region.
- The large majority of MCI-lit buildings are served by other CLECs and/or are near other CLEC fiber networks.
- Prof. Wilkie's analysis significantly mischaracterizes the risks of harm to competition and relies on data that are both inappropriate and inaccurate.

The Verizon/MCI merger does not raise significant competitive concerns regarding special access.



ATTACHMENT 3

REDACTED – FOR PUBLIC INSPECTION

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

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

DECLARATION OF EDWIN A. FLEMING

1. My name is Edwin A. Fleming. I am Senior Manager of Operations and Technology Strategic Business Planning for MCI. My responsibilities include evaluating and managing building additions to MCI's local network. My business address is 2655 Warrenville Road, Downers Grove, Illinois.
2. The purpose of this declaration is to describe the process that MCI uses to evaluate whether to extend its local fiber networks to a customer building, and to summarize the characteristics of those buildings that MCI has decided to add to its network
3. The "building add" process begins with the submission of a formal Building Add Request (BAR) to MCI's Network Development and Business Planning organization. Building Add Requests are typically submitted by an account team in MCI's sales organization, but may also be submitted by MCI's operations or business planning organizations. The Building Add Request provides key details about the candidate building, such as the customer name, building address, and a list of the services that the customer would obtain from MCI.

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4. After the Building Add Request has been submitted, the Network Development and Business Planning organization prepares an estimate of the cost of building a new fiber lateral from MCI's existing local network to the candidate building. That cost estimate takes into account the cost of trenching, fiber, transmission electronics, and the cost of deploying the riser within the building. The cost of transmission electronics is much the same from building to building. The other costs – such as trenching, conduit, and the cost of the fiber itself – depend on the distance from MCI's existing network to the candidate building and on the type of physical environment in which the trenching and deployment of conduit must take place.
5. In MCI's experience, the all-inclusive cost of deploying a typical fiber lateral of up to one-quarter mile in a major urban area (where fiber deployment is typically most expensive) is approximately \$100,000 or less. *See Exhibit.* Since the beginning of 2003, approximately 40 percent of the approved building adds in Verizon territory have been for buildings up to one-quarter mile from MCI's existing local network.¹ An additional 35 percent of approved building adds in Verizon territory have been for buildings between one-quarter mile and one-half mile from MCI's existing local network. *See Exhibit.*
6. After estimating the cost of constructing the fiber lateral, Network Development and Business Planning determines the minimum monthly required revenue (MMRR) that would justify the capital expenditure. For construction of new facilities, MCI generally requires that the access revenues committed by the customer be sufficient to

¹ Approximately 13 percent of approved building adds were for buildings up to one-tenth of a mile from MCI's existing local network.

cover recurring costs and provide a simple payback of construction costs within the payback period specified in MCI's corporate guidelines, currently [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] months.² In practical terms, this means that MCI has constructed fiber laterals that have cost between [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] with a minimum revenue commitment from such customers of as little as [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] per month over a two-year period. A customer can meet a minimum revenue commitment in that range with as few as 1-2 DS3s of capacity.

7. If the customer agrees to commit revenue that is greater than or equal to the minimum required revenue, capital funding for the building add project is approved and construction can begin. Based on MCI's experience from the beginning of 2003 through mid-2005, deploying laterals takes approximately five months on average, but can take as little as six-to-eight weeks.

² In addition to a customer revenue commitment, MCI may also consider other factors, such as potential savings from grooming existing off-net circuits in the building to the new MCI facilities, the potential for incremental revenue from other customers in the building, whether the customer or building location is strategic, and whether the customer requires MCI-owned facilities for network diversity or other purposes.

I declare under the penalty of perjury that the foregoing is true and correct.

Executed on September 7, 2005


Edwin A. Fleming

EXHIBIT 1

REDACTED – FOR PUBLIC INSPECTION

REDACTED – FOR PUBLIC INSPECTION



ATTACHMENT 4

REDACTED – FOR PUBLIC INSPECTION

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

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

DECLARATION OF NICHOLAS J. VANTZELDFE

I. Introduction and Background

1. My name is Nicholas J. Vantzeldfe. I am a Principal of Altman Vilandrie & Company and head of its Legal and Regulatory practice. Altman Vilandrie & Company's offices are located at 211 Congress Street, 6th Floor, Boston, Massachusetts 02110.

2. Altman Vilandrie & Company is strategy consulting firm serving the telecommunications and related high-tech industries. The firm was started in 2002 and has roughly 25 employees. Our practice is concentrated in the US where we assist service providers, economists, and attorneys with the creation of data-driven exhibits using maps, financial modeling, internal and external databases, and market research. Our specific service areas include: economic modeling and valuation, competitive analyses, market share analyses, demand forecasts, and cost modeling.

3. I earned a Bachelor of Science degree from the Massachusetts Institute of Technology with a concentration in economics. I have been working in the telecommunications field since 1999. Prior to joining Altman Vilandrie & Company, I was an associate at TMNG Strategy, formerly the Cambridge Strategic Management Group. In 2002, I helped start Altman Vilandrie & Company. Since then, I have

participated in regulatory proceedings involving matters such access rate reform, interconnection agreements, and implementation of the Triennial Review Order and Remand Order rules for unbundling of network elements. In the TRO and TRRO proceedings, I have worked on the economic impairment, operational impairment, and triggers analyses.

4. In this proceeding, I was asked by Verizon to examine MCI's fiber routes and buildings with MCI fiber, determine the extent of direct overlap of these assets with other Verizon competitors' assets, and display the results of my analysis on a map using Google Earth software.

5. The purpose of my declaration is to explain the methodology and data sources that were used to create the satellite maps that I understand Verizon and MCI are filing in this proceeding. These maps show MCI's and other providers' known fiber and buildings served by fiber, overlaid on top of high resolution satellite photographs of areas where MCI and Verizon have overlapping fiber facilities.

II. Fiber Routes

6. In order to map the routes of MCI's and other providers' known fiber, we first obtained raw "MapInfo" files from MCI, which included their local fiber facilities. We consolidated these files and included all fiber that MCI has either purchased from other carriers, acquired as part of a merger, constructed, or currently leases (as dark fiber) from another provider.

7. Next, to identify and map other providers' (non-Verizon and non-MCI) fiber routes, we obtained local fiber data from GeoTel, a leading provider of information related to telecommunications geography. GeoTel maintains a "MetroFiber" data set that includes information regarding carriers and fiber routes for approximately 85 different carriers in more than 100 MSAs, including for Verizon and MCI. We eliminated Verizon and MCI fiber from this data set. It is important to recognize that, as GeoTel itself recognizes, GeoTel's information regarding competitive fiber routes, while extensive, is not comprehensive and understates both the number of competitors that have deployed fiber and the reach of fiber. As a point of reference, GeoTel's information understated

MCI's fiber by nearly 43%, based on a comparison of the GeoTel data for MCI and the data that we received from MCI itself.

8. Both the GeoTel and MCI fiber information was stored in a geographic information system (GIS) database. A GIS database is a database system with specific capabilities for spatially referenced data, as well as a set of operations for analyzing that data. Data in this format can be plotted on a map for visual references as well as for distance/proximity calculations.

III. Buildings Served by Fiber

9. Next, to conduct our analysis of individual buildings where MCI and other providers have fiber, we first received from MCI the entire list of buildings where MCI has fiber directly into a building. By matching each building's physical address against Verizon's service territory, we were able to identify **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** of these buildings that are located in Verizon's local exchange franchise territory. Additionally, of these **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** buildings, we identified **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** that are Verizon central offices and an additional 15 that are carrier hotels.

10. To identify the location of buildings that are served by other fiber providers, we relied on several independent data sources: (1) MCI's data of buildings with CLEC fiber for the CLECs with which MCI has an agreement to purchase dedicated access services, which these carriers provided to MCI; (2) a list of buildings with CLEC fiber that a competing carrier supplied to Verizon in connection with Verizon's efforts to provide service outside its franchise territory; (3) data on buildings with AT&T fiber that AT&T supplied to the FCC; (4) data on buildings with CLEC fiber that AT&T obtained from CLECs; and (5) data on buildings with CLEC fiber that SBC obtained from CLECs. We merged these sources to create a master database of all buildings with known fiber from other providers. We attempted to identify the specific physical location of each building on these various lists, but were only able to positively match 16,416 buildings that were in Verizon's ILEC territory. This was largely because there was inaccurate or

insufficient data (such as the street name or number of a building address) to positively identify the exact building location. Nonetheless, we identified the specific location for at least 8,869 distinct buildings that are served by other fiber providers in MSAs, both in and out of Verizon's footprint, where MCI has buildings with fiber facilities in Verizon's local exchange territory. We only mapped those buildings for which we were able to identify a specific street address.

11. Then, using our MCI building list and our list of buildings served by other providers, we identified each MCI building that was also served by another fiber provider. For example, we determined that in total, at least [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] of MCI's [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] fiber-served buildings in Verizon's territory were also served by other fiber providers. We were also able to calculate the distance of MCI's fiber served-buildings from the nearest known fiber route of another fiber provider. In this analysis, we divided every fiber route into a series of points separated by 100ft., then calculated the distance from the MCI fiber-served building to each point, and finally determined the distance of the closest point. With an error of +/- 50 ft, we discovered that of the remaining [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] of MCI's buildings which are not known to be lit by competitive fiber, [BEGIN CONFIDENTIAL] [END CONFIDENTIAL] (70%) are within 0.25 miles of competitive fiber.

12. We loaded each building address, where we are able to identify the exact physical location, into a geographic information system (GIS) database. The database contained each locations specific address as well as latitude and longitude coordinates which allow each location to spatially plotted and analyzed. We designated each location as either served by only MCI fiber, served by MCI fiber and fiber from other providers, or served by only fiber from other providers.

IV. Mapping

13. Finally, to create the Google Earth maps submitted in this proceeding, we used a software program called Google Earth Professional, which allows users to load

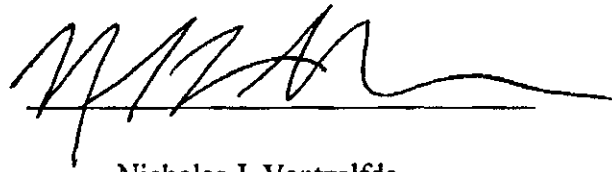
geographic information system (GIS) data onto high-resolution satellite maps. The program also allows for real-time examination of the GIS data set on the satellite images.

14. We loaded the data on fiber routes and fiber-served buildings into the Google Earth Program and were able to generate maps. Each building was given a shape based on its type (Verizon Central Office, Carrier Hotel, and End-user Office Building) and a color based on its competitive characteristics (MCI Only, MCI and Competitor, and Competitor Only), as shown on the legend on each map. Additionally, the fiber route data was color coded based on whether it was MCI fiber or fiber of another provider.

15. In some instances, we shifted the fiber routes very slightly (10-20ft) so that the maps would be able to display fiber that was directly overlapping. This adjustment was done strictly for the cosmetic appearance of the maps and did not affect the calculation of the distance of MCI's buildings from competitive fiber.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on September 9, 2005

A handwritten signature in black ink, appearing to read 'N. J. Vantzelfde', written over a horizontal line.

Nicholas J. Vantzelfde



ATTACHMENT 5

June 29, 2005

By Facsimile

Brad E. Mutschelknaus
Kelley Drye & Warren
1200 19th Street, NW
Suite 500
Washington, DC 20036
Fax: (202) 955-9792

Dear Mr. Mutschelknaus:

On behalf of Verizon and MCI, we are writing to request the data that your clients (Cbeyond, Conversent, Eschelon, TDS Metrocom, NuVox, and XO) or others provided to Professor Simon Wilkie in connection with his declaration and related analyses that have been submitted in WC Docket No. 05-75.¹ In particular, we request that your clients allow us to review, subject to the confidentiality restrictions in this proceeding, the three items described below, each of which is needed to fully evaluate the basis for Professor Wilkie's claims. Both Verizon and MCI have already made similar data available for review in connection with their Public Interest Statement, Joint Opposition to Petitions to Deny and Reply to Comments, and in the responses filed to the Commission's initial information request.

1. *Lists of CLEC-Lit Buildings.* Professor Wilkie's declaration purports to conduct an analysis of the direct horizontal overlap between Verizon's and MCI's wholesale local facilities at individual buildings. His original declaration stated that "the source for the commercial building data cited in this Declaration is GeoResults, Inc."² Professor Wilkie has more recently revealed that he also relied on the "Collected Competitive Carriers' 'lit building lists' for carrier supply."³ Professor Wilkie claims that these lit building lists show "which Competitive Carriers provide wholesale service to specific buildings."⁴ Your June 6 letter indicates that "such building list data were provided by carriers to Professor Wilkie in his capacity as consultant to the company on the express condition that the specific building addresses be kept strictly confidential and

¹ Declaration of Simon Wilkie ("Wilkie Declaration"), attached to Petition To Deny of Cbeyond Communications, Conversent Communications, Eschelon Telecom, TDS Metrocom, NuVox Communications, and XO Communications, WC Docket No. 05-75 (FCC filed May 9, 2005); Simon Wilkie, *Proposed Mergers of SBC/AT&T and VZ/MCI: Preliminary Analysis of Competitive Effects* (June 15, 2005), attached to Ex Parte Letter from Brad Mutschelknaus, Kelley Drye & Warren, to Marlene Dortch, FCC, WC Docket Nos. 05-65 & 05-75 (June 15, 2005) ("Wilkie June 15 Presentation").

² Wilkie Declaration ¶ 19 n.11.

³ Wilkie June 15 Presentation at 6.

⁴ *Id.*

not revealed to any third party.”⁵ That is not, of course, a ground to withhold such information. Rather, such information can and should be provided pursuant to the Protective Order issued in this proceeding.

2. *Bid Data.* Professor Wilkie’s declaration also purports to analyze RFPs for wholesale special access services, which he uses to hypothesize how much average bid prices would change if MCI and AT&T no longer bid. To perform this analysis, Professor Wilkie states that he used “bid data provided to [Professor Wilkie] by the Joint Petitioners.”⁶ Professor Wilkie states that he “[c]ollected data on carriers’ responses to requests for information.”⁷ Professor Wilkie provides only a single “illustrative example” of such data in his declaration, however, and that example fails to describe the carriers or even geographic area involved in the bid. These bid data should be provided pursuant to the protective order to the extent they include confidential information.

3. *Regression Analysis.* As part of this bid analysis, Professor Wilkie also indicates that he performed a “regression analysis on price data to determine increase in bid prices post-mergers.”⁸ Professor Wilkie states that the results of this analysis show that “[w]inning bids are on average 50 percent to 60 percent lower than ILEC special access charges,” and that his “[i]nitial regression analyses of the price data show that post-mergers, the wholesale price discount from special access rates would decrease on average by over 15%.”⁹ In order to understand these claims, it is necessary to view the results and underlying “price data” used in Professor Wilkie’s analysis. This information likewise should be provided pursuant to the protective order to the extent it includes confidential information.

Sincerely,

Verizon Communications Inc.

MCI Inc.

/s/ Sherry Ingram

/s/ Alan Buzacott

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⁵ Ex Parte Letter from Brad Mutschelknaus, Kelley Drye & Warren, to Marlene Dortch, FCC, WC Docket Nos. 05-65 & 05-75, at 7 n.17 (June 6, 2005).

⁶ Wilkie Declaration ¶ 20.

⁷ Wilkie June 15 Presentation at 17.

⁸ *Id.*

⁹ *Id.* at 21-22.

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July 7, 2005

VIA FACSIMILE

Sherry A. Ingram
Assistant General Counsel
1515 N. Courthouse Road
Suite 500
Arlington, VA 22201-2909

Re: WC Docket No. 05-75

Dear Ms. Ingram:

This is in response to your letter addressed to me and dated June 29, 2005 by which you requested that I submit certain data relied upon by Dr. Simon Wilkie in preparing a declaration and presentations submitted in the above-referenced docket. As you are aware, Verizon and MCI have no right of discovery in this proceeding, and neither Kelley Drye & Warren LLP or its clients in this matter have any obligation to provide the requested information to you. You should also be aware that the information that you request is highly confidential, proprietary and competitively sensitive. Finally, most of the information that you seek is readily available for purchase by Verizon from GeoResults or can be found in MCI's own files (i.e. building lists and bid data). Accordingly, we are unable to provide the information that you request.

Sincerely,



Brad E. Mutschelknaus