SBC/AT&T
Verizon/MCI
Mergers

Concerns and Proposed Merger Conditions

The Rural Alliance
WC Docket Nos. 05-65 and 05-75
September 21, 2005

Merger Concerns

1. **Vertical Integration in the IP Space**
2. **Horizontal Integration in the Circuit-Switched Space**
3. **Abuse of Interconnection as a Competitive Tool**
4. **Harm to Rural Consumers**

Vertical Integration In The IP Market Will Likely Lead To Market Power Abuse

- **Vertically-integrated entities will be *both* retail competitors and wholesale suppliers.**
  - **They will own distribution facilities, ISPs, IP backbones and content sources.**
- **Wholesale suppliers with retail interests have a *motive* for market power abuse.**
- **Without constraints, these companies have the *opportunity* for market abuse.**
- **After the fact enforcement will not work.**
  - **Significant time lag between action and reaction**
  - **Significant cost to rural consumers and competitors in the interim**
  - **Absent regulatory intervention, market power would be exerted in the circuit-switched world**

Post-Merger Verizon And SBC Will Have Unprecedented Control Of The LD Market

- **Post-merger SBC and Verizon will have a 70 percent market share of all LD business.**
  - **(See Consumer Federation of America, Consumers Union and U.S. Public Interest Research Group, Petitions to Deny, WT Docket Nos. 05-65 and 05-75, filed April 22, 2005, and May 9, 2005, respectively)**

- **HHI Indices in enterprise markets will increase from 2,924 to 4,679, greatly exceeding DOJ merger guidelines.**
  - **(See New York Department of Public Service, Staff White Paper, Cases 05-0237 and 05-0242)**
  - **As a general rule, any increase of more than 100 HHI pts in a concentrated market (which this is) raises antitrust concerns.**

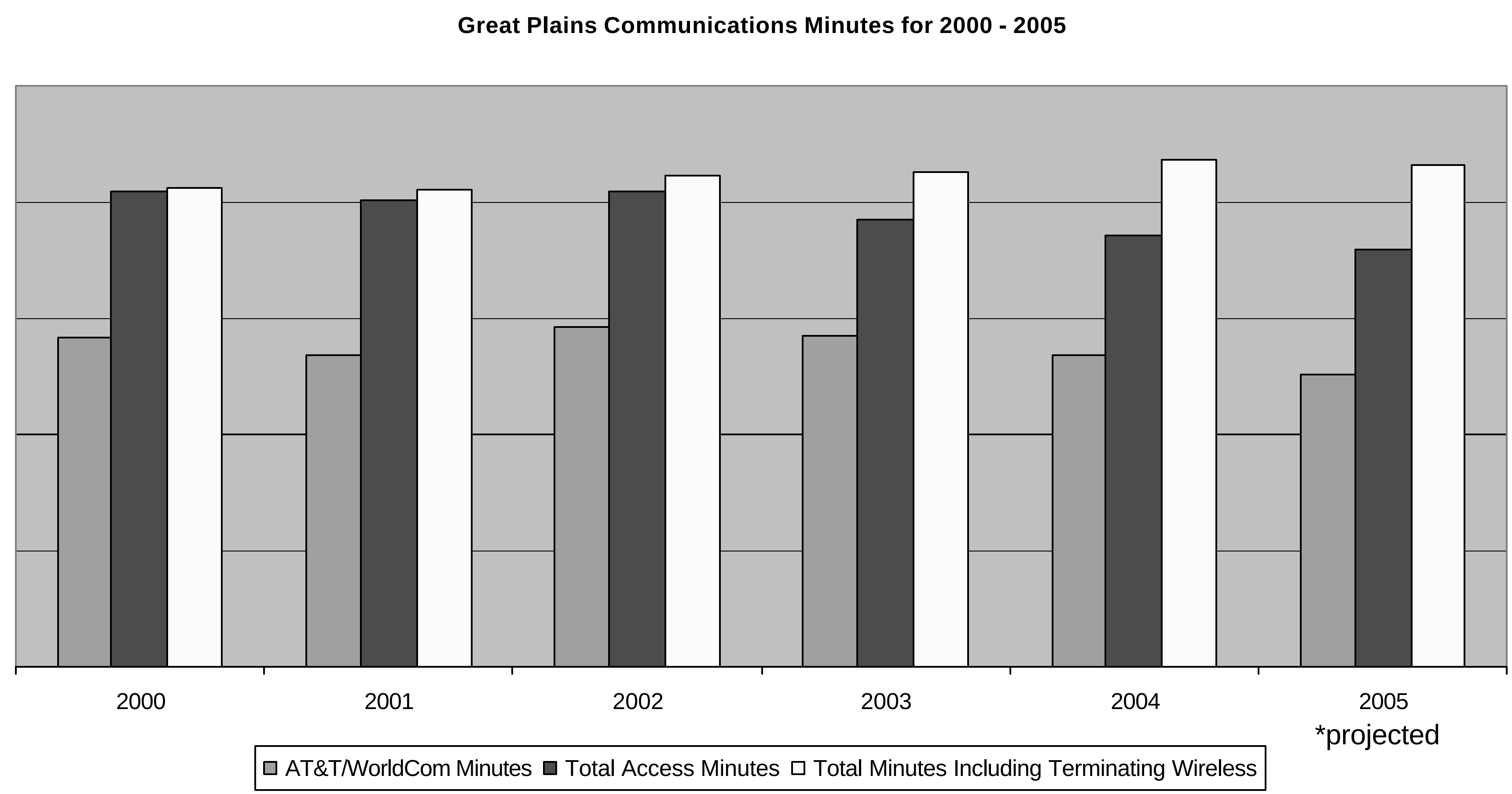
Parties To Mergers Seek To Manipulate Intercarrier Compensation

- **SBC, AT&T and MCI support a bill and keep regime for intercarrier compensation in the circuit-switched world.**
- **Where carriers are equally situated, Verizon supports the use of commercial agreements for IP and circuit-switched interconnection compensation.**
- **However, Verizon also promotes default circuit-switched ICC rates for networks with "greater value."**

Realities In Circuit-Switched LD Sector

- **Under bill and keep, post-merger SBC and Verizon would have unthinkable advantages.**
  - **Pay nothing for use of other carriers' networks.**
  - **Receive large new transiting revenues on these bottleneck facilities.**
- **There is no real evidence that the long distance business is destined for extinction.**

Great Plains Communications Data Demonstrate Network Usage Stability



Market Power Can Be Exerted By Restricting IP Interconnection

- **Interconnection can be restricted by:**
  - **closing local distribution facilities; and/or**
  - **refusing to peer/interconnect; and/or**
  - **charging predatory transit rates; and/or**
  - **Manipulating and degrading service levels.**
- **No rules exist to ensure independent ISPs' interconnection in the IP world.**
- **In an IP world, rural companies will have to pay for network connections with no offsetting ICC revenues.**
- **In an unregulated Title I world will open interconnection of IP networks even be required?**

Commercial Agreements Will Create Anarchy In Interconnection

- **Large entities want interconnection governed by "commercial agreements" in order to exert market power.**
  - **Small companies have little leverage in negotiations with large companies. Large companies can "walk away" from negotiations; small companies cannot.**
  - **Predatory and discriminatory practices are hidden and protected by the terms of non-disclosure agreements.**
  - **Large backbone providers will likely act in a cartel-like manner.**
- **Rural customers will suffer consequences of commercial agreements in both circuit-switched and IP worlds.**
- **Small companies forced to rely on commercial agreements will be like "dancing with elephants in the dark."**

Interconnection Is Critical to Customers Of Rural Companies

- **In an unregulated environment, the winner of any game between big and small is already decided.**
- **Why is this important to customers?**
  - **Not regulating *local* interconnection will limit customers' choice of ISPs.**
  - **Not regulating *backbone* interconnection will disadvantage independent ISPs' customers and leave rural customers without affordable – or possibly any – broadband access.**
- **Regulators must set the rules of the game.**

If A Laissez-Faire Interconnection Policy Is Pursued...

- **History from the early 1900s will repeat itself (e.g. interconnection anarchy).**
- **Independent ISPs will be eliminated when networks are closed.**
- **Content availability will be controlled by vertically-integrated entities.**
- **A duopoly between the cable providers and the ILECs will exist in cities.**
- **Interconnection terms will be dictated by the largest players, not negotiated between parties with equal rights.**

The Foundation Of Public Networks: Interconnection

- **Open interconnection rules are the foundation of a seamless, multi-provider network.**
- **Under Title II, telecommunications carriers must interconnect based on public, non-discriminatory terms and conditions.**
- **The economics of interconnection are no different between an IP or a circuit-switched network.**
- **The pursuit by Verizon and SBC of Title I status for IP interconnection should be a warning signal for regulators.**

Without Conditions, Mergers Will Hurt Availability Of Broadband For Rural Consumers

- **Price of rural broadband connectivity will skyrocket, making the service unattainable for many customers.**
- **Rural companies' incentives to invest in broadband infrastructure will be chilled as lenders and investors remain skeptical.**
- **To assure rural broadband services over the long term, merger conditions must be accompanied by balanced, reasonable resolutions to intercarrier compensation and USF.**

Proposed Merger Conditions

1. **Merged companies' (and affiliates') Internet backbones should be subject to interconnection obligations and non-discrimination requirements.**
2. **Merged Tier I Internet backbone providers should be required to file interconnection "statement of generally available terms and conditions" pertaining to price and quality of service.**
3. **Non-disclosure agreements with any party regarding either of the merged companies' facilities should be deemed illegal.**
4. **Any actions by a party utilizing the public Internet that blocks or manipulates data to create a competitive advantage should be deemed illegal ("net neutrality").**
5. **Compensatory access rates for origination and termination of LD traffic should be maintained post-mergers, ensuring that Verizon and SBC IXCs provide compensation for use of facilities.**