Writer's Direct Dial: 703.755.6730
Facsimile Number: 703.755.6740
Sheba.Chacko@bt.com

October 20, 2005

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, N.W.
Washington, DC 20554

Re: Application for Consent to Transfer of Control Filed by
Verizon Communications, Inc. and MCI, Inc.; WC Docket No. 05-75

Dear Ms. Dortch:

BT Americas Inc. files this *ex parte* letter on behalf of itself and other U.S. subsidiaries of BT plc ("BT") in response to the Verizon Communications, Inc. and MCI, Inc. joint *ex parte* letter of August 12, 2005 ("Verizon/MCI Letter").[1] As explained more fully below, the Verizon/MCI submission is replete with factual assertions that are undercut by evidence that BT is submitting herewith.

The merging parties claim that BT has no direct experience of buying services from Verizon. That is not true. BT's U.S. subsidiaries do purchase a percentage of their special access services directly from Verizon.

The merging parties' assert that BT can hardly complain of excessive input prices when its own prices for the same input are higher. This is not true either. The charts on the next page [2]compare Verizon North's and Verizon South's T-1 pricing to BT's 2 Mbps pricing in the UK. The source of the pricing is described below. It is clear from the charts and discussion that follow that BT's rates in the U.K. for equivalent special access circuits are far lower than rates charged by Verizon.

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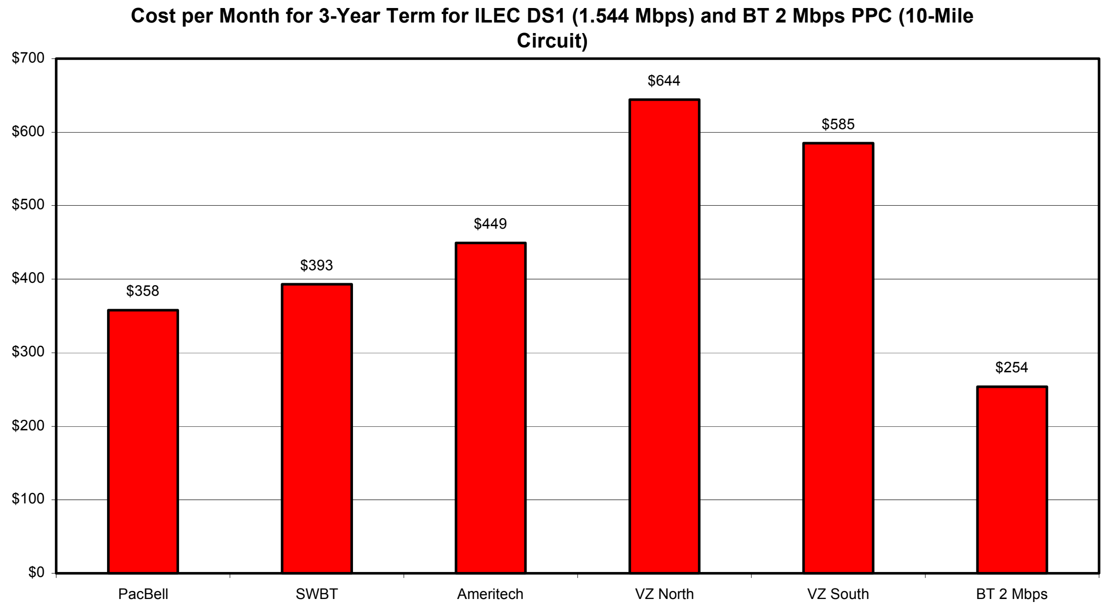
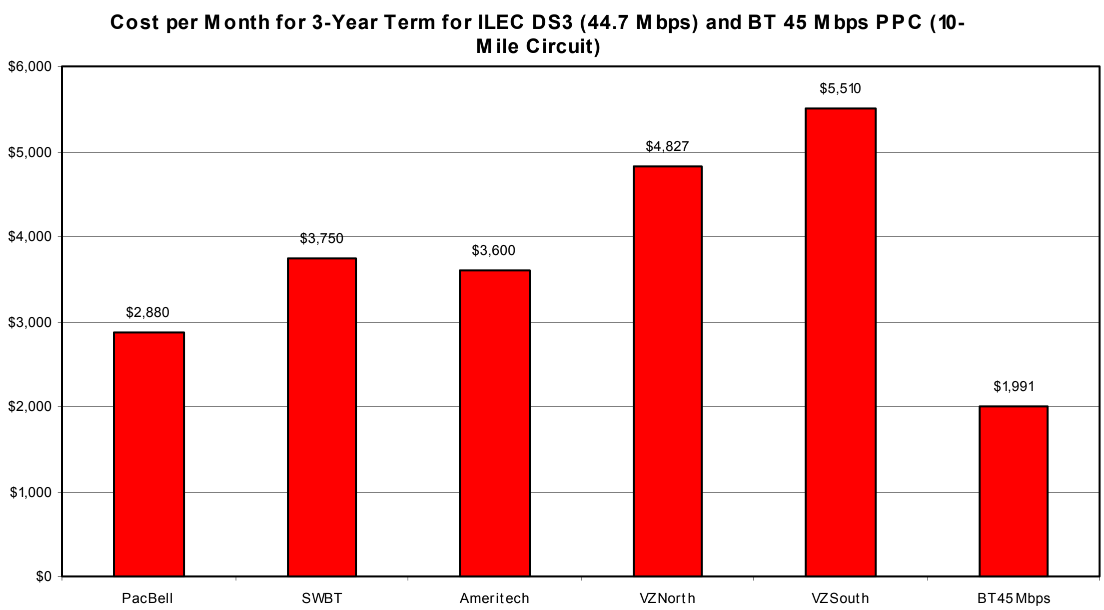
[1] Ex Parte letter from Dee May, Verizon Communications, Inc., and Curtis Groves, MCI, Inc. to Marlene H. Dortch (filed August 12, 2005).

[2] BT has filed these comparison charts in the special access proceeding. *See* Reply Comments of BT Americas Inc in In the Matter of Special Access Rates for Price Cap Local Exchange Carriers, WC Docket No. 05-25 (July 12, 2005).


Cost per Month for 3-Year Term for ILEC DS1 (1.544 Mbps) and BT 2 Mbps PPC (10-Mile Circuit)
$700
$600
$500
$400
$300
$200
$100
$0
$358
$393
$449
$644
$585
$254
PacBell
SWBT
Ameritech
VZ North
VZ South
BT 2 Mbps


Cost per Month for 3-Year Term for ILEC DS3 (44.7 Mbps) and BT 45 Mbps PPC (10-Mile Circuit)
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$2,880
$3,750
$3,600
$4,827
$5,510
$1,991
PacBell
SWBT
Ameritech
VZNorth
VZSouth
BT45Mbps

Sources and assumptions:

(1) The SBC and Verizon rates are taken from the Declaration of M. Joseph Stith submitted with the Comments of AT&T Corp. in *In the Matter of Unbundled Access to Network Elements, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers*, WC Dkt. No. 04-313, CC Dkt. No. 01-338 ("*TRO Remand Proceeding*") (Oct. 4, 2004) . The 3-year ILEC rates are taken directly from Attachment 1, pages 11-20. The declaration describes the sources and calculation of the ILEC rates. Basically Stith calculated ILEC charges for a circuit consisting of two channel terminations and ten miles of interoffice mileage between a customer premise and an IXC POP. Note that the ILEC rates are for MSAs where pricing flexibility applies (i.e., they are not price cap rates). Also note that these are discounted rates off of the base rates and are from ILEC optional payment plans. In Stith's analysis, the ILEC rates were current as of 7/1/04. For each of the five entities shown in the charts, the monthly rate is the average of the monthly rates for each of the states that make up the entity. Only recurring charges were considered in these calculations. Rates are for Zone 1 which is the cheapest of all zones and hence most favorable to SBC and Verizon in conducting a rate comparison. If Verizon South pricing from a more expensive price flex band is considered – for *e.g.*, Band 6 pricing from Verizon South's FCC Tariff No. 1 -- using the same parameters as above increases the monthly DS-1 rate from $585 to $686.15.

(2) For BT Rates, *see* BT Wholesale web site http://www.btwholesale.com/content/binaries/service_and_support/pricing_information/carrier_price_list_browsable/B8.03.rtf . Section B8, Part 8.03. Only BT's recurring charges were considered in these calculations. In calculating the U.K. pricing for a 2 Mbps circuit, BT included a local end charge of £712 per year (equivalent to a channel termination charge), a main link fixed charge of £424 per year (equivalent to the fixed charge for interoffice transport), and a term segment cost of £749.95 per year (equivalent to the per kilometer charge multiplied by sixteen kilometers of interoffice mileage). The resulting annual charge of £1885.95 was then, for the reasons explained more fully in note 3 below, converted using the 2004 OECD Purchasing Power Parities (PPP) rate of $1.6161/£.and divided by 12 to arrive at BT's U.K. monthly recurring charge for a 2 Mbps circuit of $254. In the U.K. a second channel termination charge would not apply for the circuit between BT's central office and an IXC POP. What would apply would be a one time equipment charge at the point of handover to the IXC. At the point of handover, the IXC would use the equipment to interconnect multiple circuits. The one-time pro rata equipment charge for the handover of a 2 Mbps circuit is £232.59. This charge amortized over a three year term adds a cost of $10.40 to BT UK's rate for a 2 Mbps dedicated access circuit bringing BT's monthly charge for a 2 Mbps access circuit in the U.K. up to $264.40 per month. BT followed a similar methodology in calculating its U.K. rate for a 45 Mbps dedicated access circuit.

(3) BT rates are converted at the 2004 OECD PPP rate of $1.6161/£.. The web address for the OECD PPP is http://www.oecd.org/statisticsdata/0,2643,en_2649_34347_1_119656_1_1_1,00.html. BT uses PPP exchange rates because they are a more accurate reflection of the cost of

living in each country and tend to be less volatile than pure currency exchange rates (except in countries with runaway inflation). PPPs are also what the OECD uses in its comparisons of telecommunications rates among countries.[3]

(4) BT did not compare ILEC and BT U.K. nonrecurring charges for dedicated access circuits because of possible differences in the elements that comprise nonrecurring charges in the U.S. and U.K. In the U.K. at the customer premises, the nonrecurring charge includes charges for electronics inside the customer premises required to deliver a 2 Mbps circuit from the customer premises. BT's understanding is that in the U.S. similar elements may not be included in the nonrecurring charges at the customer premises end and that, unlike the U.K., electronics inside customer premises in the U.S. may be provisioned by non-ILEC third parties. BT believes that excluding such charges provides a more valid comparison of special access rates.

Note that BT's U.K. prices for special access are geographically neutral. Customers pay the same rate in rural Scotland as they do in central London. This is not the case for Verizon's and SBC's rates. Their rates increase significantly in higher priced bands within an MSA as described in (1) above.

Not only are access rates lower in the U.K., but because of effective access regulation in the U.K., BT cannot discriminate against competitors even though BT is a vertically integrated provider. BT's prices for PPCs are based on long run incremental costs and the weighted average cost of capital ("WACC") that BT is entitled to recover.[4] In an economic sense, there is no above reasonable cost of capital return that could be used to fund a price squeeze.[5] By contrast, in Verizon's region, Verizon earns huge margins above its forward looking costs[6] which can and will be used post-merger to price squeeze competitors in downstream markets. Nor can BT discriminate in provisioning or maintenance in providing services because U.K. regulation requires BT to publish metrics on its equivalent special access product. No such protection or transparency has been implemented by the Commission with respect to special access in the U.S.

Against this backdrop, the merging parties seek to consummate a combination of a dominant access provider that controls enterprise access in some of the largest economies in the

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[3] Note that in BT's Ex Parte filed on May 6, 2005, and BT's Reply Comments filed in Docket Nos. 05-65 and 05-75, BT inadvertently transposed the PPP rate it used. Instead of listing the May 2004 OECD PPP rate as 1.467099128US\$PPP = £1 in its calculations, it transcribed the PPP rate as 1US\$PPP = £1.467099128. This resulted in an inadvertent error in the calculation of BT's U.K. pricing for an equivalent 1 Mbps, 2 Mbps, and 45 Mbps circuits. The correct (non-transposed) PPP rate is used in the charts in this filing.

[4] WACC is not a profit indicator, but the cost that BT incurs in order to pay back its equity and debt providers via dividend and interest.

[5] The current WACC is 13.5% and it will be 10.1% for PPCs. Ofcom has proposed a new cost of capital return of 10.5% (10.1% for what will become the Access Services Division that will provide PPC Access and 11.5% for rest of the business lines). See http://www.ofcom.org.uk/consult/condocs/cost_capital2/

[6] Even Verizon's rate of return on special access based on its embedded costs are high – its ROR has increased from a low of 3.85% in 1996 to 31.64% in 2004. *See* Reply Comments of Ad Hoc Telecommunications Users Committee at 4, filed May 29, 2005 in this docket.

world[7] with one of the largest providers of national and global enterprise and backbone services, all the while maintaining that safeguards against discrimination are unnecessary. The merger radically changes Verizon's incentives to discriminate against MCI's competitors. Pre-merger Verizon had no incentive to favor MCI whereas post-merger Verizon has every incentive to favor MCI in price and service.[8]

Therefore the Commission must impose safeguards to preserve competition in the enterprise and Internet backbone service markets.

Respectfully submitted,

A. Sheba Chacko

[7] The State of New York, only one of the states in which Verizon controls enterprise access, is the eleventh largest economy in the world. The State of Pennsylvania is the sixteenth largest economy in the world. 15 of world's 20 largest pharmaceutical companies are headquartered in New Jersey.

[8] BT also incorporates by reference herein its Reply Comments filed in Docket No. 05-65 on May 10, 2005, which further discuss the horizontal and vertical anticompetitive harms of the mergers. While the discussion in BT's Reply focuses primarily on the SBC and AT&T merger, the analysis and argument is equally applicable to the Verizon and MCI merger.