

**THE COMMISSION SHOULD TAKE ACCOUNT OF SIGNIFICANT STRUCTURAL  
DIFFERENCES IN MARKETS WHERE SPECIAL ACCESS SERVICES COMPETE  
November 3, 2009**

- I. THE CORRECT VIEW IS FORWARD LOOKING RATHER THAN HISTORICAL
  - Special access circuits are typically customers specific and often constructed especially for the customer; as such, the appropriate economic view of the service is forward looking.
  - Ethernet is rapidly replacing special access circuits, offering more capacity for less.
  - CenturyLink must deploy new fiber just like competitors.
  - Special access channel terminations typically are sunk cost investments with considerable risk.
  
- II. CUSTOMERS USE SPECIAL ACCESS CIRCUITS FOR A VARIETY OF PURPOSES, AND GENERALLY HAVE SEVERAL ALTERNATIVES
  - The economics of the service differ from wireless backhaul, to long distance transport, to business loops, and customers choose from different sets of alternative providers/technologies.
  - The use of Requests for Proposals is common, evidencing significant competition.
  - Special access purchasers generally are large and capable of self-supply.
  
- III. FEDERAL REGULATION HAS SUBSTANTIALLY AFFECTED MARKET CONDITIONS
  - CenturyLink has two kinds of special access markets: (1) highly competitive, or (2) highly regulated.
  - Most regulation (even of prices) remains in place today.
  - As much as 75% of the population lives in areas without Phase I pricing flexibility.
  - Title II regulation (as a CLEC) persists in nearly all places for most services.
  - The decisions reached in the regulatory separations process have had lingering impacts.
  - Rate of Return regulation translated separations decisions into real-world price/cost disparities.
  - Services are typically built for customers, yet regulation assumes a homogenous product.
  
- IV. ILECS, PARTICULARLY ONES IN RURAL AREAS, FACE GREAT CHALLENGES
  - The Commission's analytical framework must account for the fact that several major special access purchasers have been exiting the ILEC business in whole or in part.
  - Special access is just one part of the local business; special access revenues are used to pay for the same network as other local services.
  - Voice lines/minutes/revenues are eroding at a rapid pace due to substitution and facilities-based competition; special access may have to carry a greater share of network costs.
  - Low population densities pose additional challenges for special access providers.
  
- V. COMPETITORS COME FROM MANY BACKGROUNDS, USING DIFFERENT TECHNOLOGIES
  - Fixed Wireless/Microwave: the leading technology for wireless backhaul in Europe, used less here because as Sprint executive commented, "special access is too cheap."
  - Cable companies using HFC: nearly ubiquitous, high-capacity networks; leaders in Ethernet.
  - CLECs offering traditional or Ethernet services: some are more focused on building access, but very competitive for cell towers as well.
  - Electric Utility affiliated CLECs: particularly strong in FL and NC; own towers as well.
  - IXC: several extending fiber deeper into network and reaching many cell towers.
  - Adjacent ILECs: a number of circuits cross service areas; CLEC affiliates also compete directly.
  - Self-Provisioning: major wireless providers can and do use own spectrum or other approaches.