



# ***Wholesale Services: The Critical Input to Competition and Broadband Growth***

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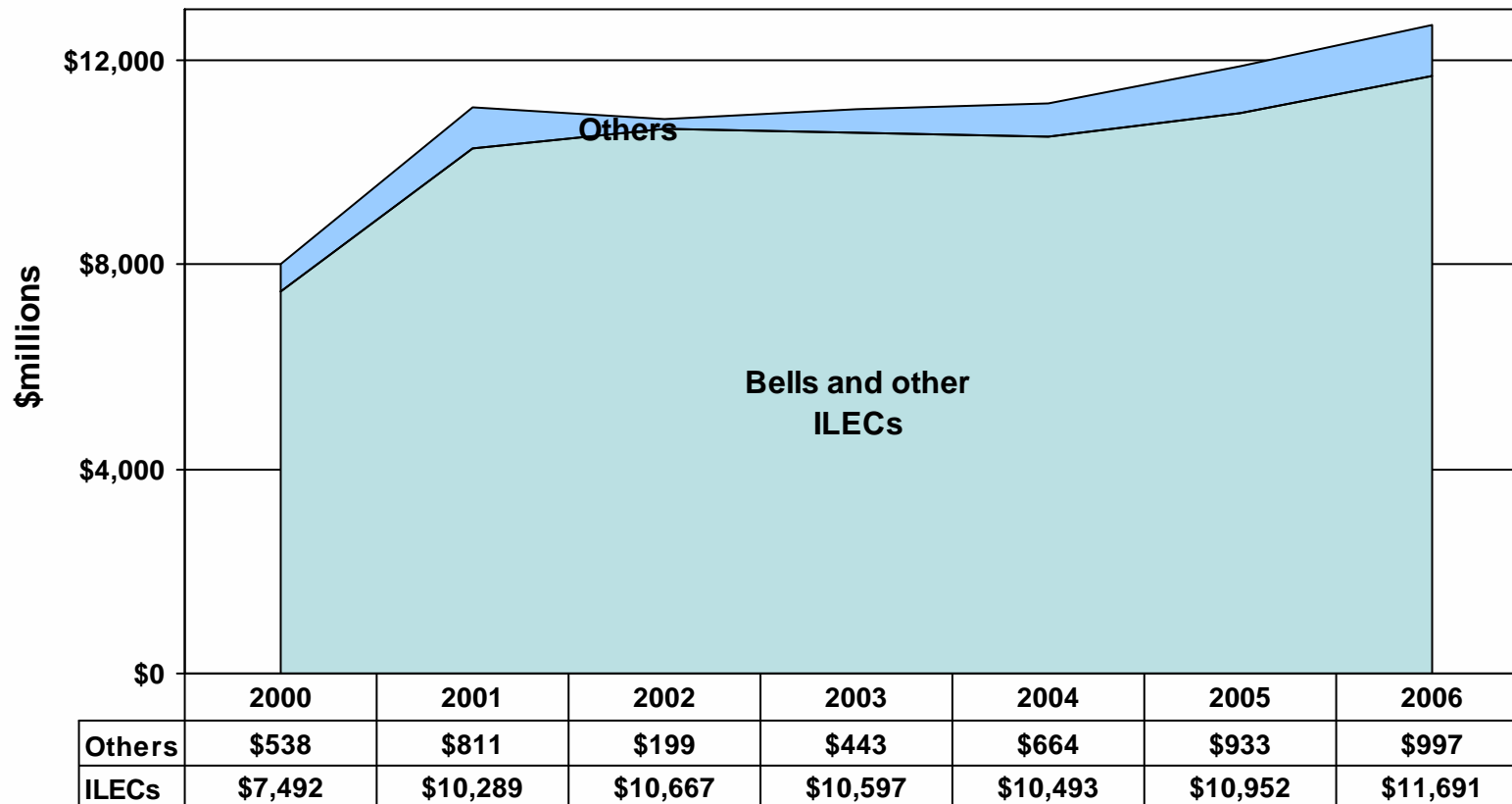
*November 14, 2009*

# ***Wholesale Services Remain Critical for Competition and Broadband Growth***

- *Wholesale Access to last and middle mile ILEC facilities remains a critical input for the deployment of broadband services and telecommunications services.*
- *Ten years after deregulation began, ILECs continue to control access to customers, particularly for last mile channel termination.*
- *Market dominance has resulted in high prices and anti-competitive terms and conditions.*
- *High prices reduce the ability of competitors to deploy services, creates a price floor for consumers and distorts competition in the market.*

# ILECs Continue to Dominate the Market

## Wholesale Interstate Special Access Revenue



# ***NRRI Study***

- *Unbiased, independent collection of data*
- *Analysis of special access markets on many different levels*
  - *Capacity: DS-1, DS-3*
  - *Circuit Type: Channel Termination; Transport*
  - *Contestable market theory: new entrants generally only operating on fringes*
  - *Rates of Return; adjusted to account for separations issues*
- *Claims of lack of data are disingenuous*
  - *No seller data provided by AT&T and Qwest*
  - *No buyer data provided by AT&T Wireless and Verizon Wireless*
- *Robust data collection provides ample evidence to make solid conclusions and recommendations*

## ***According to NRRI***

- *More than 90% of all channel terminations are provided by ILECs, including 99% of DS-1 Channel Terminations.*
- *All Special Access markets remain highly concentrated:  
“Not one of the special access markets has even 2.0 effective firms.”*

# As a result prices remain unreasonably high

## Competitive Markets Bring Lower Prices



Note: The DS1 price is the average price of a five-year term plan for two channel terminations and 10 miles of transport.

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Wholesale Services

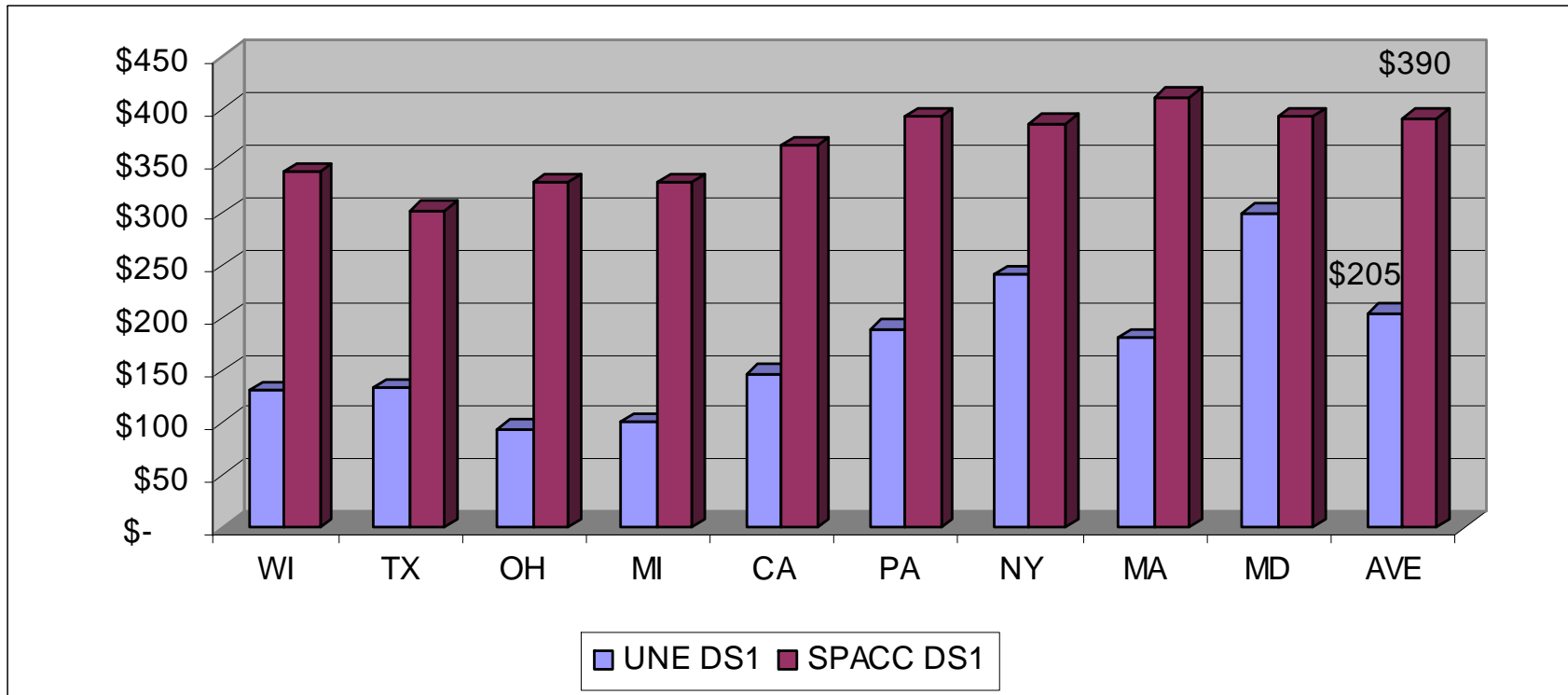
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# **Inflated Prices: Prices AT&T and Verizon Charge for Special Access Greatly Exceed the Economically Efficient Price**

The 5 Year Term Rate for a DS1 Special Access Circuit is **90% Higher** than the Functionally Equivalent Unbundled Network Element Rate



DS1 Circuit Price= 2 Channel Terminations and 10 miles of Transport  
Cost Based Price = 2 DS1 UNE Loops and 10 miles of Transport  
Comparison using the most urban set of UNE and special access rates  
Average is simple average of rates in these 9 states.

# Unreasonable Prices Result in Unreasonable Returns

## Monopoly Prices Bring Windfall Profits for AT&T and Verizon



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# ***Wholesale Services at Prices that Recognize ILEC Market Power Needed***

- *Special Access rates continue to reflect ILEC Market Power*
- *BOCs continue to seek removal of UNE wholesale channel termination through Forbearance Filings*
- *BOCs have failed to provide 271 Elements as required for their long distance entry*
- *Wholesale Actions Needed:*
  - *Special Access pricing reform – FCC Moving with Special Access NPRM*
  - *Thorough Market Analysis in Forbearance Proceedings -- Omaha Predictive Judgment of Vibrant Wholesale Market Incorrect*
  - *271 Elements Should be Established consistent with 271 Coalition Proposals*

# ***Wholesale Access Promotes Robust Broadband***

- *Berkman Study on Next Generation Connectivity filed with FCC concludes:*  
*“Contrary to perceptions in the United States, there is extensive evidence to support the position, adopted almost universally by other advanced economies, that open access policies, where undertaken with serious regulatory engagement, contributed to broadband penetration, capacity, and affordability ....”*
- *Reformed ILEC wholesale offerings providing increased access to channel terminations and transport at reasonable prices will have the same positive effects on broadband deployment in the United States*

## ***The Time for FCC Action is Now***

- *The FCC should act to reform BOC wholesale channel terminations and transport to provide better access and pricing and state commissions should support that action to promote competitive broadband deployment*