

PAETEC PRESENTATION ON CENTURYLINK-QWEST MERGER

December 6-7, 2010

- PAETEC
- MERGER
 - Third and fourth largest LECs
 - Highly concentrated industry
 - With each merger, significance of consolidation is greater

Harms from Merger

- Harms resulting from merger
 - From consolidation
 - Loss of direct competition
 - Loss of potential competition
 - Big Footprint
 - Loss of benchmark

Harms from Merger

- From disruption
 - OSS
 - » Inferiority of EASE (see PAETEC's 12/7/10 ex parte letter and attachments)
 - » Disruption inherent in any change of OSS
 - » Possible abandonment of Qwest CMP
 - » Unique concerns arising from inapplicability of § 271 to CenturyLink and resulting lack of third party testing
 - » Disruption of status quo in ICAs and Qwest/CLEC working arrangements

Conditions

- **CONDITIONS**
 - Not an issue of denying application but of conditions needed to offset harm
 - As in past mergers, both conditions that are directly related to the merger and those that are not directly related to the merger are needed. The latter group is necessary to offset harms that cannot be offset directly.

Conditions

- Integra/Cox settlements
 - In Integra/Cox settlements, Applicants recognize that conditions that they have claimed are not related to the merger, such as extension of interconnection agreements and starting negotiation of new agreements based on the existing agreement, are needed. They simply disagree with PAETEC in many cases on the appropriate duration of the condition.
 - Difference between needs of Integra/Cox and needs of PAETEC

Conditions

- Conditions with longer duration needed
 - Longer period is justified
 - » Need for regulatory certainty
 - » 42 months was used in AT&T/BellSouth merger
 - » Applicants will be making changes to achieve synergies for 3-5 years, based on their own testimony in state proceedings.
 - Preservation of current Qwest OSS for 36 months instead of 24
 - » Retention of existing functionality
 - » Less than agreed to in Embarq merger
 - Prohibition of cost filing on current UNEs/collocation for 36 months (as in BellSouth) instead of 18
 - Forbearance moratorium for 36 months (as in BellSouth) instead of 12

Conditions

- Extension of commercial agreements (with prices) for 36 months instead of 18 and application to agreements as of merger filing
 - » Clarification that extension moots ongoing negotiations or arbitrations
- Extension (at CLEC's option) of term & volume commitments on tariffed services for 36 months instead of 12
- No changes by Qwest to its PIDs and PAPs for 36 months instead of 18
- Prohibition on reclassification of wire centers as non-impaired for 36 months instead of 12 months

Conditions

- Term and volume discount plans for tariffed services extended for 36 months instead of 24
- Omitted conditions
 - Requirement that successor OSS in Qwest territory allow CLEC to retain level of automation and functionality in its back office that CLEC was able to attain through electronic bonding with Qwest OSS
 - Third party testing of new OSS in BOC territory
 - Pricing of § 271 network elements

Conditions

- Special access conditions
 - » No adverse changes in price flex term and volume discount plans
 - » Applicants will file term and volume discount plans without MARCs and customers may switch to them without penalty
 - » If Applicants offer a term and volume discount plan with a variable MARC, they will also file a fixed MARC
 - » Reset special access in price flex areas to price cap levels and reduce tariffed Ethernet rates in Phase II areas by 15%
 - » No inclusion of access service ratios in price flex contracts or tariffs of special access

Conditions

- Applicants shall not oppose state commissions enforcing or arbitrating the issues associated with § 251 or § 271 merger conditions
- Eliminate limitations in § 3.b.ii of Integra Agreement regarding going-forward unavailability of commercial agreements
- No rate increases on tandem transiting
- Drop pending cases on unfiled access agreements

- **NEED FOR ADDITIONAL DISCOVERY**
 - Applicants have taken the position that a § 271 compliant OSS is not a continuing obligation of the Act
 - Discovery similar to that proposed by tw telecom and Integra is needed to highlight inferiority of EASE and FCC position that OSS compliance is a continuing obligation
- **ABSENCE OF PUBLIC BENEFITS**