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JUN 22 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

June 22, 2001

EX PARTE OR LATE FILED

EX PARTE

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th St. SW
Washington, D.C. 20554

Re: CC Docket No. 96-98

Dear Ms. Salas:

On June 21, 2001 Dr. Robert Crandall and Dr. Hal Singer of Criterion Economics, LLC met with Common Carrier Bureau staff to discuss the competitive analysis of the special access service market that Dr. Crandall and Dr. Singer prepared and USTA filed in its reply comments in the latest phase of the Local Competition/UNE Remand docket. The attached document formed the basis for their presentation.

Also participating in the meeting were: Jeffrey Linder of Wiley, Rein and Fielding; Jon Banks and I, representing BellSouth; Brian Benison and Gary Phillips, representing SBC; Keith Townsend, representing USTA; and Scott Randolph, Augie Trinchese, Edward Shakin, and Dennis Weller, representing Verizon. The Common Carrier Bureau staff attending the meeting included Michelle Carey (PPD), James Eisner (IAD), Jeremy Miller (PPD), Daniel Shiman (PPD), Julie Veach (PPD), and Tracy Waldon (IAD).

As required by Commission rule, I am filing notice of this ex parte meeting in the docket identified above, and request that you associate this notice with the

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Ms. Magalie Roman Salas
June 22, 2001
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record of that proceeding. If you have any questions concerning this, please call me at 202.463.4113.

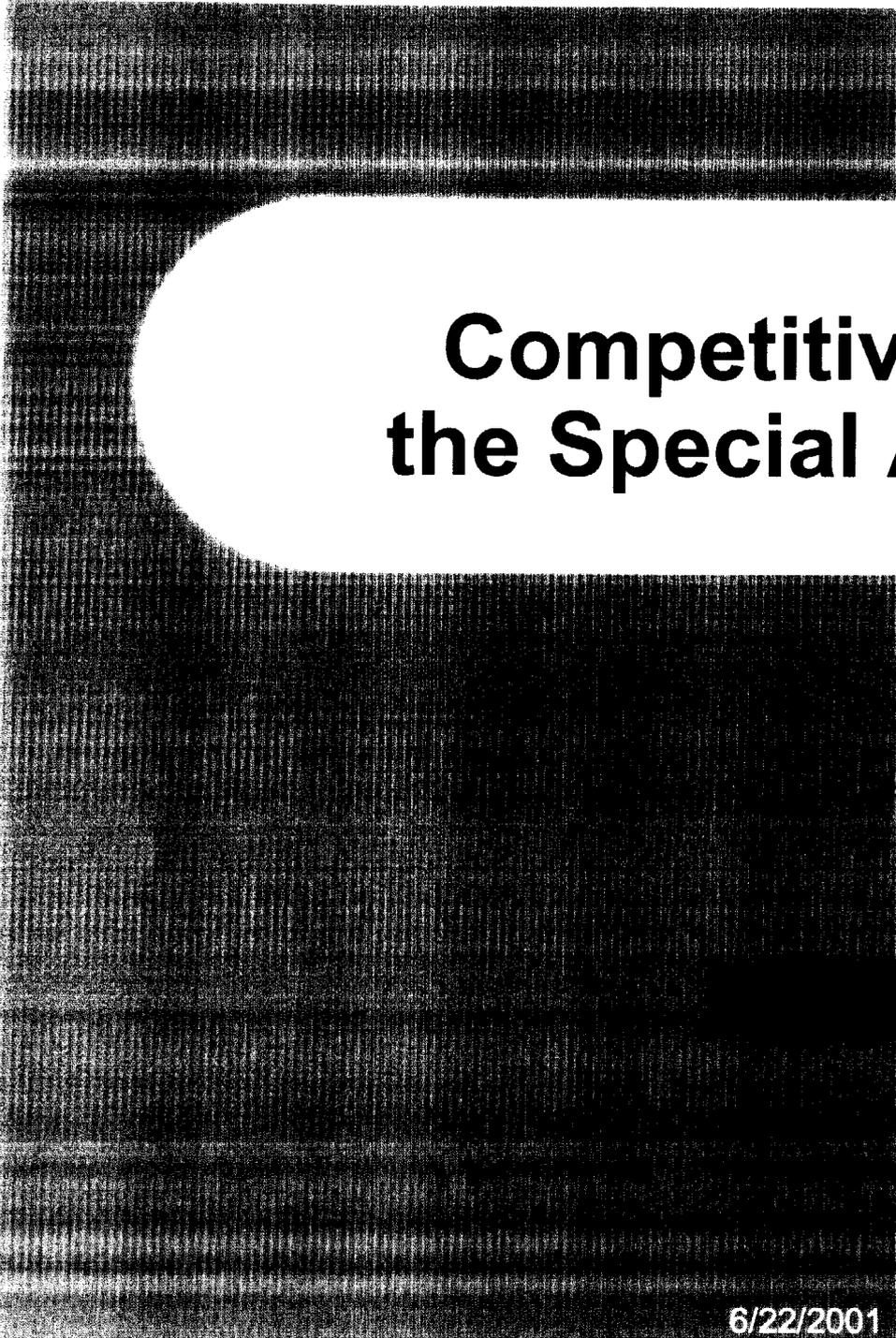
Sincerely,

A handwritten signature in cursive script that reads "Kathleen B. Levitz".

Kathleen B. Levitz

Attachment

cc: Michelle Carey (w/o attachment)
James Eisner (w/o attachment)
Jeremy Miller(w/o attachment)
Daniel Shiman (w/o attachment)
Julie Veach (w/o attachment)
Tracy Waldon (w/o attachment)
Robert Crandall (w/o attachment)
Hal Singer (w/o attachment)
Jeffrey Linder (w/o attachment)
Brian Benison (w/o attachment)
Scott Randolph (w/o attachment)
Keith Townsend (w/o attachment)



Competitive Analysis of the Special Access Market

Robert W. Crandall
Criterion Economics L.L.C.

6/22/2001

Confidential

Threshold Issue

- ❑ *Question:* Are CLECs impaired in their ability to provide special access services without access to an unbundled network loop-transport combination?
- ❑ *Answer:* Many CLECs already have deployed facilities that can be used to serve the majority of special access customers. Hence, the Commission must answer “No” to the threshold question

The Commission Can Encourage CLEC Growth and Deployment of Its Own Facilities

- ❑ Because the process is evolving, there is no “magic” level of addressability
- ❑ CLECs must weigh the net benefits of facilities-based deployment against the net benefits of using elements of the ILEC networks
- ❑ If CLECs are already deploying fiber widely to serve special access customers, others can also do so.
- ❑ By establishing the rules of the game appropriately, the Commission influences the trajectory of CLEC deployment

Special Access Services Represent a Distinct Product Market

- ❑ Special access customers are very large businesses that spend a lot of money on telecommunications service
 - ❑ 102.3 versus 8.4 onsite employees for high cap and non-high cap subscribers, respectively
- ❑ Special access customers tend to be clustered geographically
- ❑ Because special access customers are very large businesses that are geographically clustered, CLECs have a particularly strong economic incentive to use their own facilities to serve the special access market

The Extent To Which Special Access Customers Are Already Served by Facilities-Based CLECs: Four Part Methodology

- ❑ Identifying the Characteristics That Influence the Demand for Special Access
- ❑ Locating Potential Special Access Customers in the Sample Cities
- ❑ Calculating the Share of Potential Special Access Customers That Are Currently Addressable by CLEC Fiber Lines
- ❑ Determining the Profitability of Serving These Potential Off-Net Customers

CLEC Deployment Is an Ongoing Process

- ❑ The measurement of addressability is a snapshot of an evolutionary process
- ❑ The identical exercise performed one year forward will produce a different result
- ❑ Fiber deployment by wholesalers and CLECs continues to grow
- ❑ Hence, there is no “magic” level of addressability

Step 1: Characteristics of Special Access Customers

- ❑ Obtain survey data of 3,500 businesses in 3Q-00 from TNS Telecoms
- ❑ Estimate the probability that a business customer subscribes to at least one DS-1 line based on that customer's characteristics (number of onsite employees, type of business, etc.)

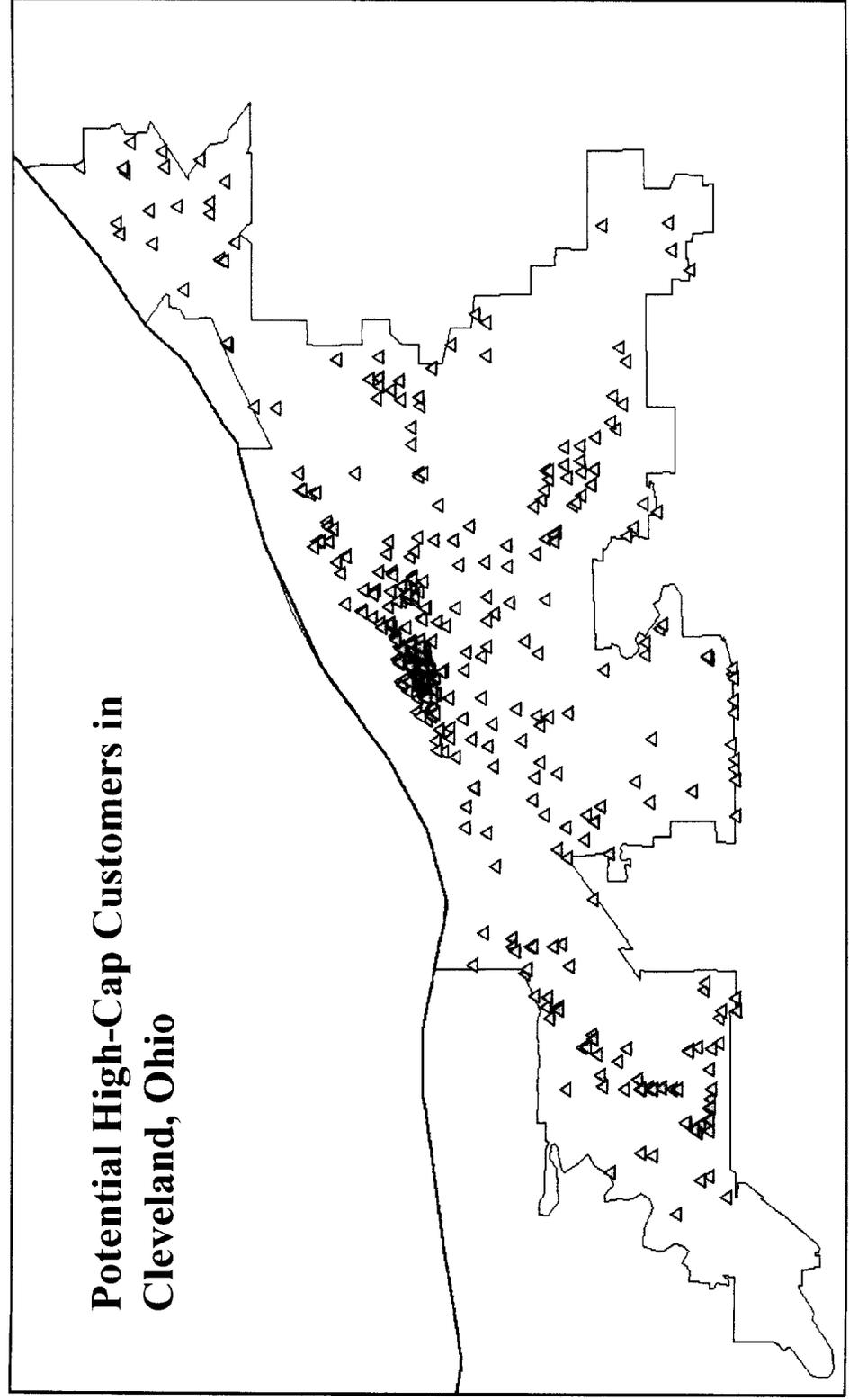
Step 2: Locating Potential Special Access Customers in Six Cities

- ❑ Using the parameters from Step 1, estimate the likelihood that each business in a sample city subscribes to at least one DS-1 line
- ❑ Identify “high-likelihood subscribers” based on scores above some critical threshold

City Selection Methodology

- ❑ The cities are chosen to represent a broad range of different sizes (two small, two medium, and two large)
- ❑ The smallest city (Greenville) has population of 50,000—the majority of special access revenues are generated in cities with population greater than 50,000
- ❑ The choice of cities was constrained by the availability of fiber data from iMapdata
- ❑ No reason to believe that CLEC activity in these cities is atypical.

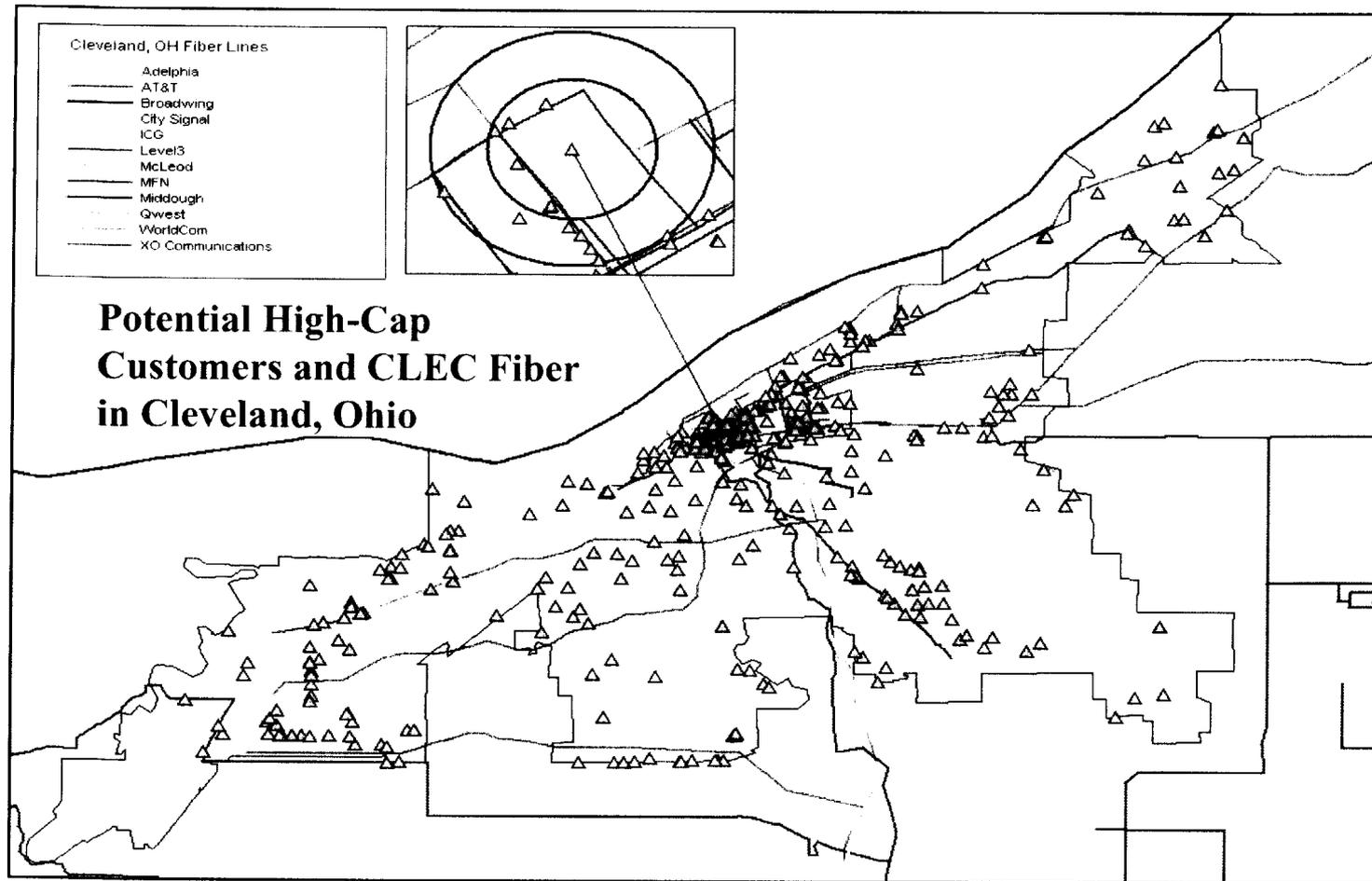
Results of Steps 1 & 2 for Cleveland



Step 3: Calculating Addressability of Potential Customers

- ❑ Identify coordinates of existing CLEC fiber lines
- ❑ Overlay map of potential customers with map of existing CLEC fiber lines
- ❑ Measure the distance between potential customers and existing CLEC fiber lines
- ❑ Build distribution of “addressability” -- minimum distance between a potential customer and a CLEC
- ❑ Identify the actual distances of CLEC extensions, using the recent history of CLEC network development in that city.

Results of Steps 1 through 3



Results of Steps 1 through 3

Distribution of Addressability for Potential Customers, Cleveland, Ohio—At Least One CLEC Fiber Line

Feet	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000
Percent	67%	76%	84%	91%	94%	96%	98%	98%

Distribution of Distance for Actual Extensions Made to the CLEC Fiber Network Cleveland, Ohio from 1999 to 2001

Feet	500	1,000	1,500	2,000	2,500	3,000	3,500	4,000+
Percent	20%	10%	10%	20%	10%	10%	0%	20%

Step 4: Determining the Potential Profitability of Serving Off-Net Customers

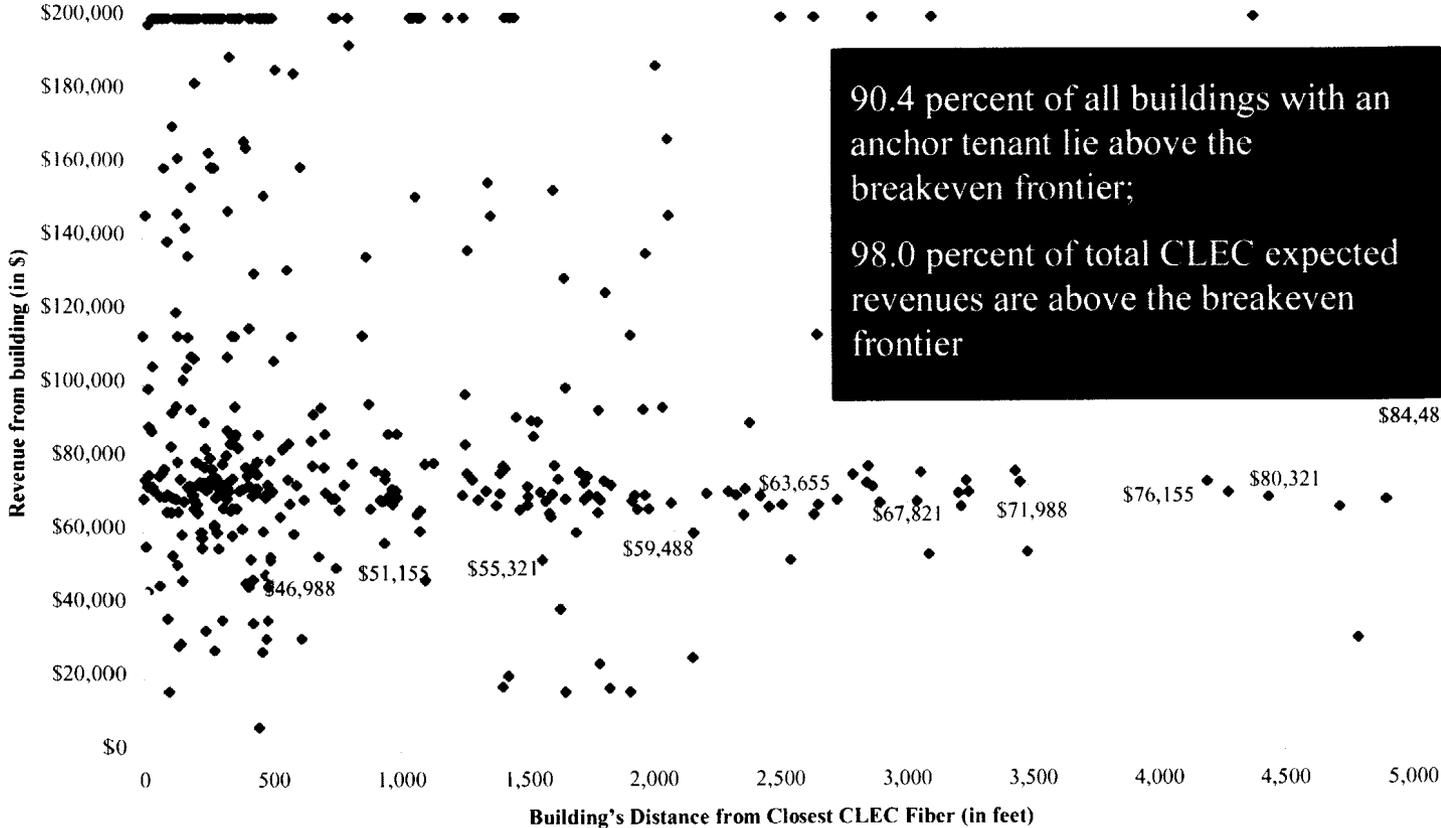
- Estimate a revenue-forecasting model for a firm based on TNS survey data on firm characteristics *and* telecommunications expenditures, including local non-switched, local switched hi-cap, regional toll, long-distance, and international long-distance revenues

Step 4: Determining the Profitability of Serving Off-Net Customers

- ❑ Using InfoUSA data, apply model parameters to each firm in those buildings with a potential customer or “anchor tenant”
- ❑ Estimate the level of annual revenues (generated by a building) necessary for a CLEC to at least break even by extending its network a certain distance (CSMG), given the costs of extending its network in that city.

Results of Steps 1 through 4

Distribution of Addressability for Potential Customers, Cleveland, Ohio—At Least One CLEC Fiber Line



Similar Results for Other Cities

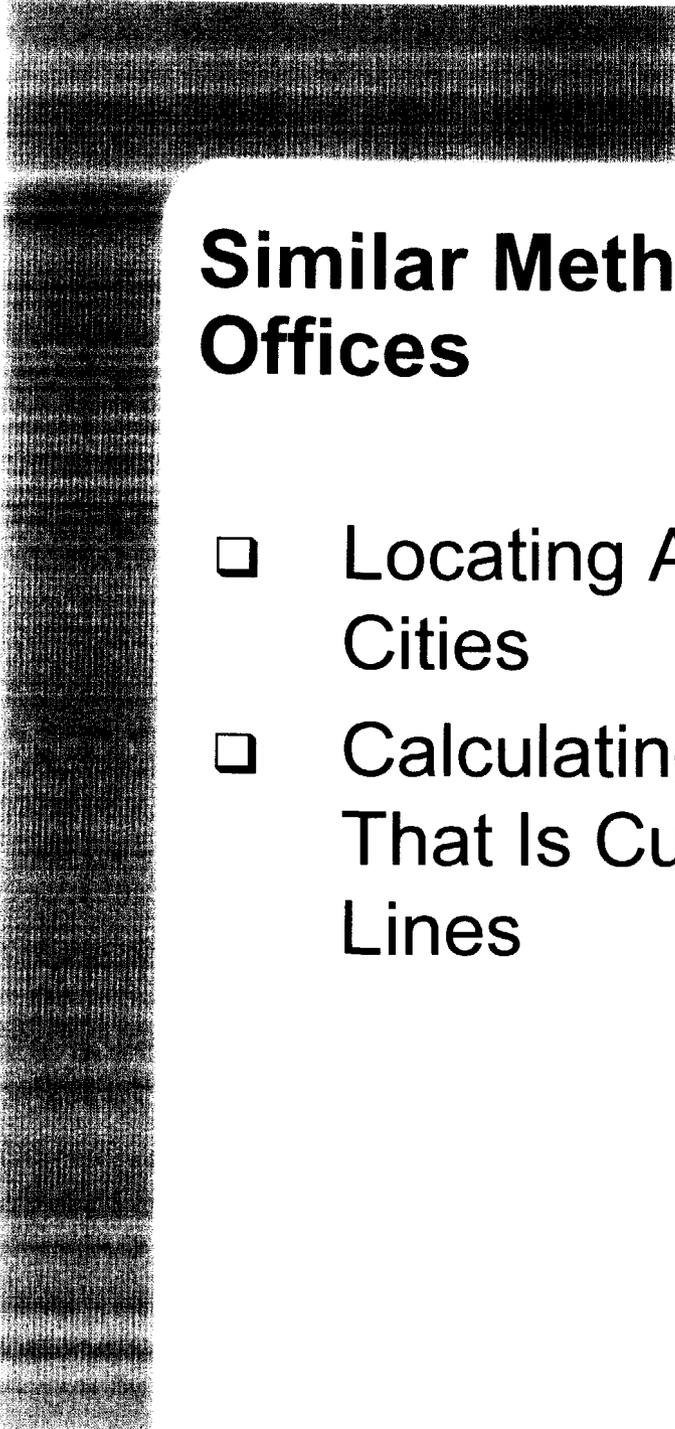
Distribution of Addressability for Potential Customers, At Least *One* CLEC Fiber Line

City	500 feet	1,000 feet	1,500 feet	2,000 feet	2,500 feet	3,000 feet	3,500 feet	4,000 feet
Cleveland	67%	76%	84%	91%	94%	96%	98%	98%
Seattle	86%	93%	95%	96%	98%	99%	100%	100%
Tucson	41%	51%	59%	62%	67%	71%	74%	76%
St. Paul	43%	67%	74%	81%	86%	88%	90%	92%
Dayton	36%	40%	44%	50%	54%	57%	61%	63%
Greenville	47%	64%	74%	79%	82%	84%	86%	88%

Similar Results for Other Cities

Percent of Buildings and Revenues Above Breakeven Frontier

City	Buildings	Revenues
Cleveland	90.4	98.0
Seattle	92.0	98.2
Tucson	82.1	93.7
St. Paul	88.6	95.8
Dayton	91.6	97.3
Greenville	90.9	98.3



Similar Methodology for Analyzing Central Offices

- ❑ Locating All Central Offices in the Sample Cities
- ❑ Calculating the Percent of Central Offices That Is Currently Addressable by CLEC Fiber Lines

Results of Steps 1 through 2 for Cleveland

Distribution of Addressability of Central Offices, by Distance Cleveland, Ohio—At Least *One* CLEC Fiber Line

City	500 feet	1,000 feet	1,500 feet	2,000 feet	2,500 feet	3,000 feet	3,500 feet	4,000 feet
Cleveland	54%	77%	85%	92%	100%	100%	100%	100%

Distribution of Addressability of Central Offices, by Distance Cleveland, Ohio—At Least *Two* CLEC Fiber Lines

City	500 feet	1,000 feet	1,500 feet	2,000 feet	2,500 feet	3,000 feet	3,500 feet	4,000 feet
Cleveland	38%	46%	54%	69%	100%	100%	100%	100%

Conclusion

- ❑ In *Pricing Flexibility Order*, Commission determined the special access market was sufficiently competitive to remove price regulation in several markets based on collocation data
- ❑ The standard used in the pricing flexibility decision (consumer-based) must be more stringent than the standard for impairment decision (competitor-based)
- ❑ Irreversible investment in facilities compels the Commission to conclude the CLECs are not impaired in the provision of special access service