

ORIGINAL



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November 12, 2002

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TWB-204
Washington, DC 20554

Re: Notice of Oral Ex Parte Communication. In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket Nos. 01-338, 96-98 and 98-147

Dear Ms. Dortch:

On Friday, November 8, 2002, Bob Quinn, Mike Pfau, Rich Rubin and the undersigned, all representing AT&T, met with William Maher, Scott Bergmann, Michelle Carey, Rich Lerner, Tom Navin, Robert Tanner, Jeremy Miller and Julie Veach of the Commission's Wireline Competition Bureau. The purpose of the meeting was to discuss the engineering and economic disadvantages that CLECs face in trying to compete in the analog mass-market world using a UNE-L strategy. All comments made at the meeting were consistent with the attached presentation materials.

Consistent with Commission rules, I am tiling one electronic copy of this notice and request that you place it in the record of the above-referenced proceedings.

Sincerely,

Joan Marsh

cc: William Maher
Michelle Carey
Thomas Navin
Jeremy Miller

Scott Bergmann
Rich Lerner
Robert Tanner

PROMOTING MASS-MARKET

COMPETITION:

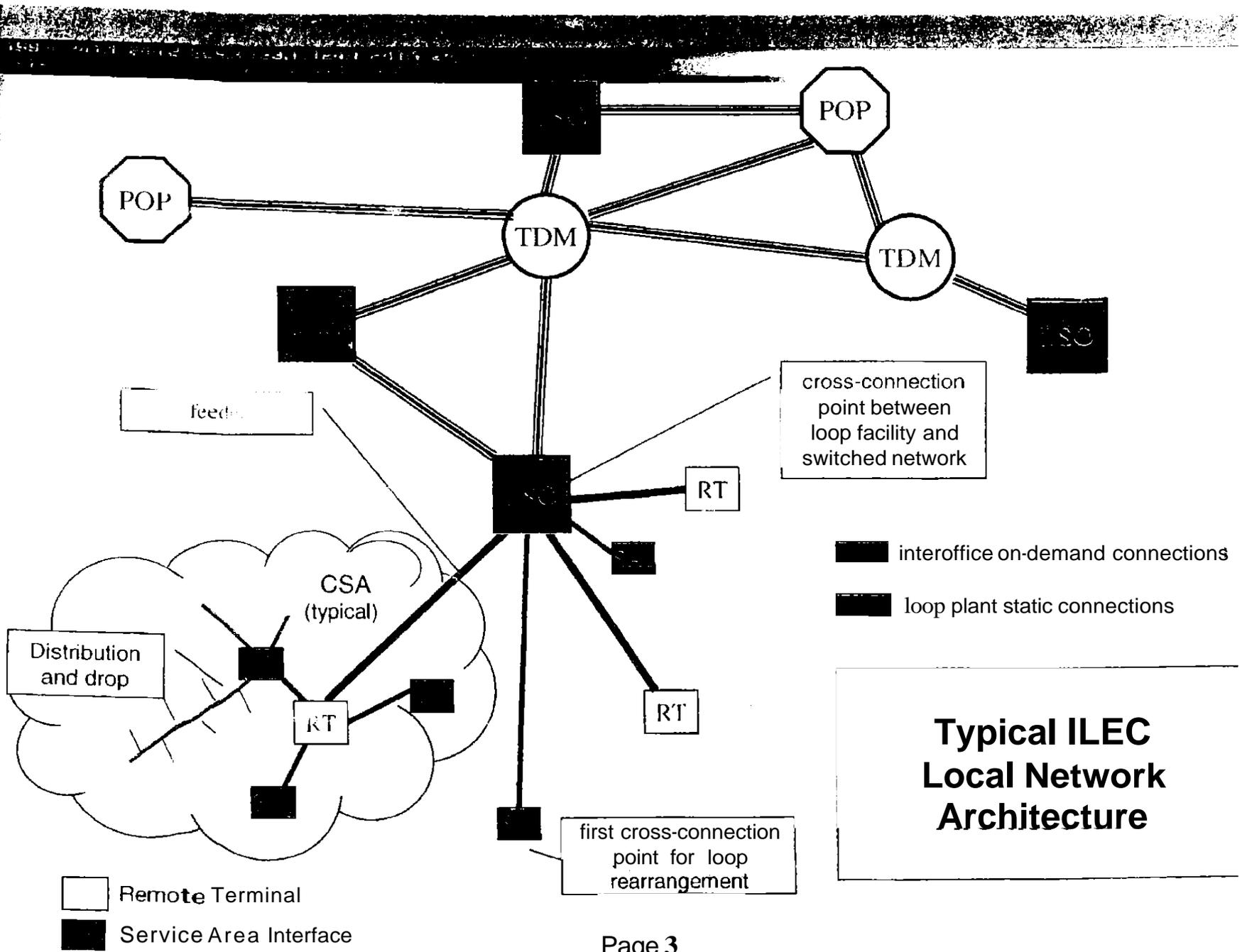
FACING THE ANALOG WALL

AT&T

November 8, 2002

How Do Regulators Create an Environment That Will Encourage Rational Facilities Builds?

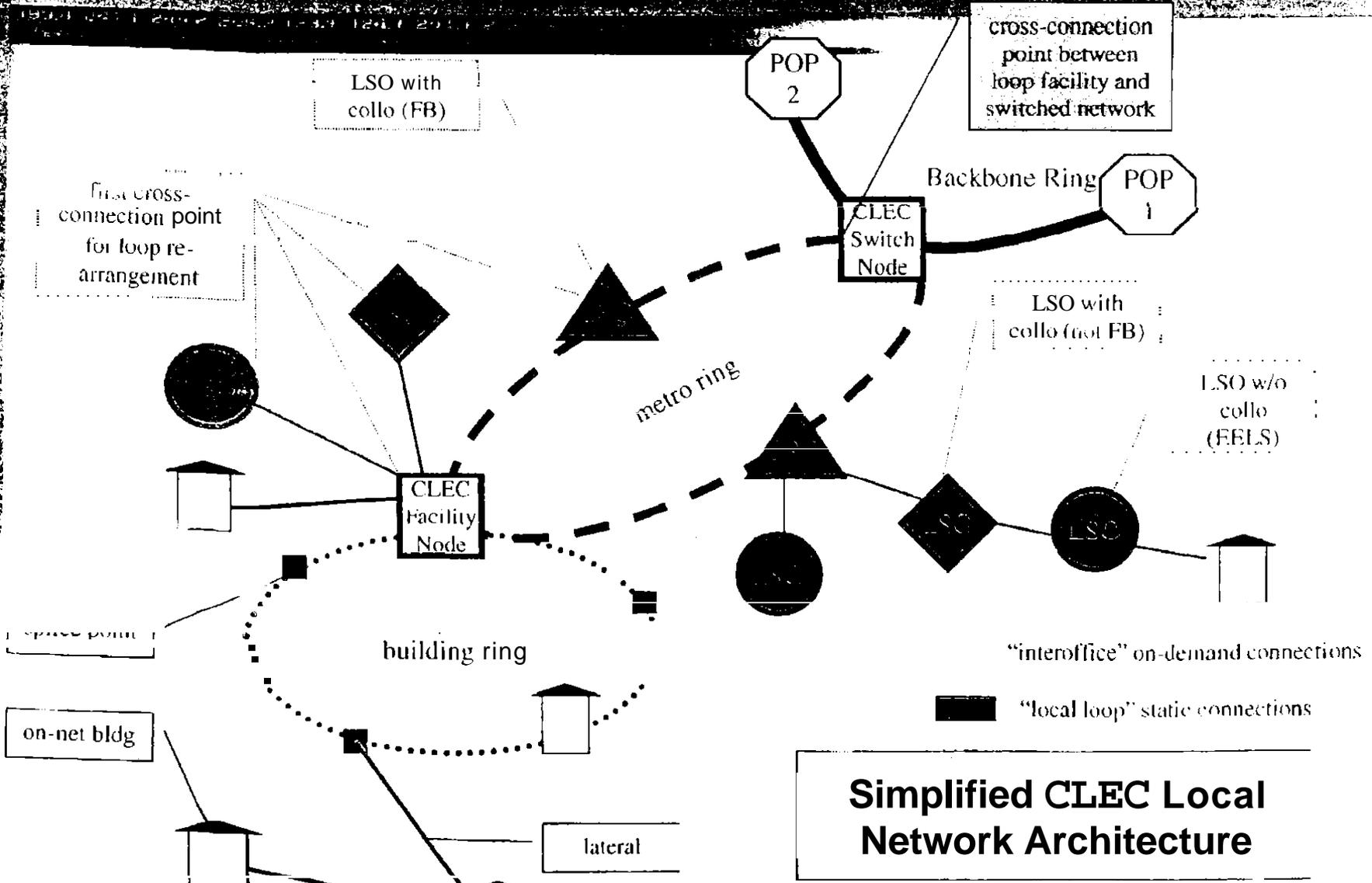
- ***UNDERSTAND ILEC/CLEC NETWORK
ARCHITECTURE DIFFERENCES***
- ***IDENTIFY AND MINIMIZE CLEC COST
DISADVANTAGES***
- ***CREATE AN EVEN PLAYING FIELD FOR
ALL ALL DISTANCE PLAYERS***



AT&T Network Services

AT&T Points of Presence





Simplified CLEC Local Network Architecture

AT&T: 25% of our 1700 collocations are facilities-based
 RBOC UNE Fact Book: 13 facilities-based collocations for every 100 wire centers

The Key for all Providers: Connecting the loop to a switched network

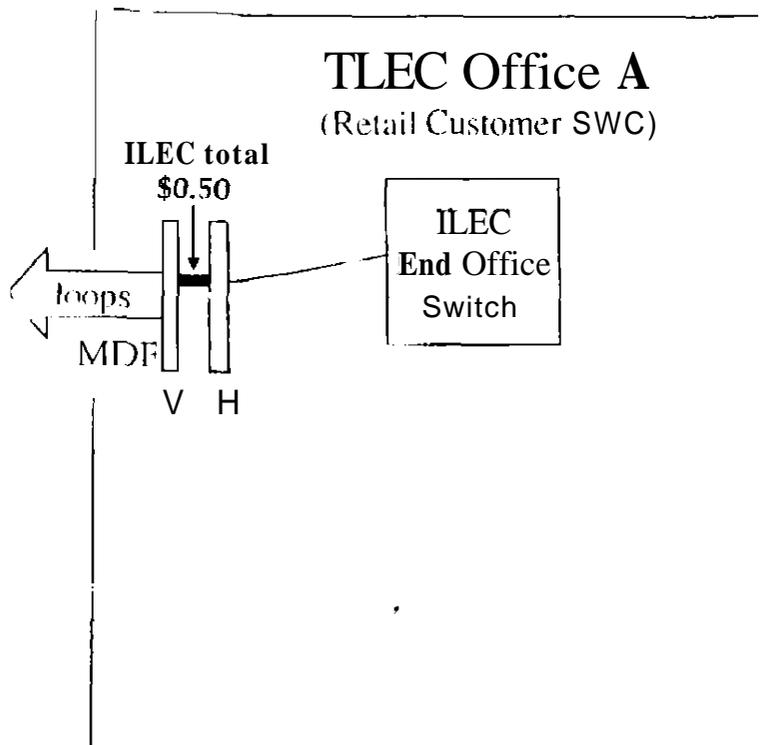
Key ILEC Costs

- Cross-connection from loop to ILEC switch port with a few feet of jumper cable

Key CLEC Costs

- Collocation Costs
 - Space; Power; Cross-Connect Devices
- Loop Provisioning Costs
 - Hot Cut charge and internal CLEC costs to support manual processes
- Transmission Equipment
 - DLC; Multiplexer (DS1 to DS3)
- Transport Costs
 - Interoffice Transport or Special Access
- Facilities-Based Connectivity Costs
 - Add/Drop multiplexer (DS3-OC48)
 - Fiber distribution panel
 - Connectivity to metro ring

ILEC vs. CLEC loop interconnection

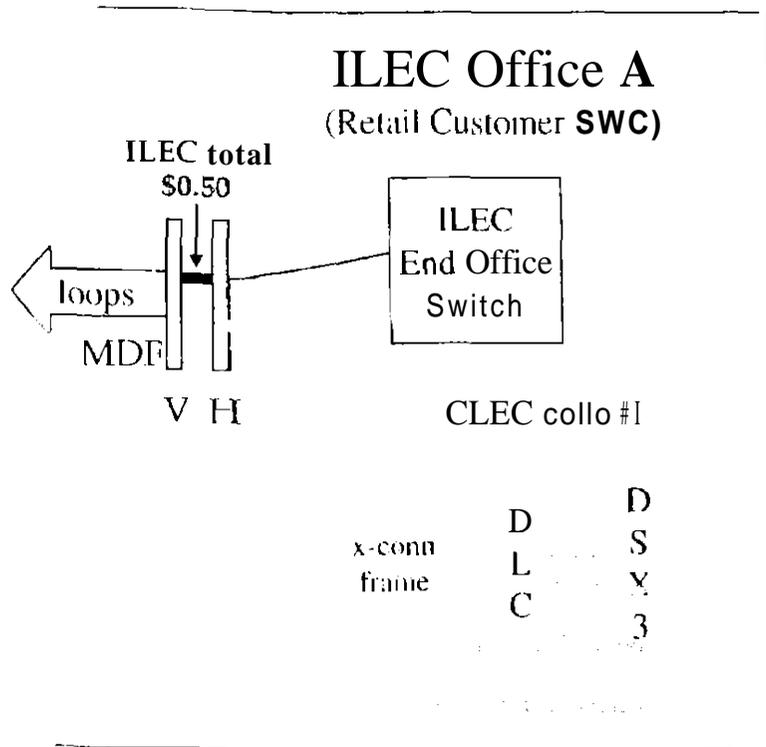


When an ILEC activates service for a retail customer, **the** customer's loop must be connected to the switch port. Either a short pair of wires is run between the loop **and** the switch port appearances on the Main Distribution Frame or, if the connection was left in place, a software transaction activates service

The connection between the loop and the switch functionality for the ILEC is a short copper pair that represents a cost well under 50 cents **per** month

— ILEC Backhaul Network

ILEC vs. CLEC loop interconnection



When a CLEC attempts to provide voice grade service over a UNE-L, it must invest in an extensive backhaul infrastructure to provide the equivalent of the tie-pair

First, the CLEC must digitize and multiplex every UNE-L to permit transmission of the customer's communications to a distant switching location

This activity, assuming 100% utilization, generates added costs of about \$2.33' per loop for the DLC functionality plus about about \$1.41* per loop for collocation space the DLC consumes

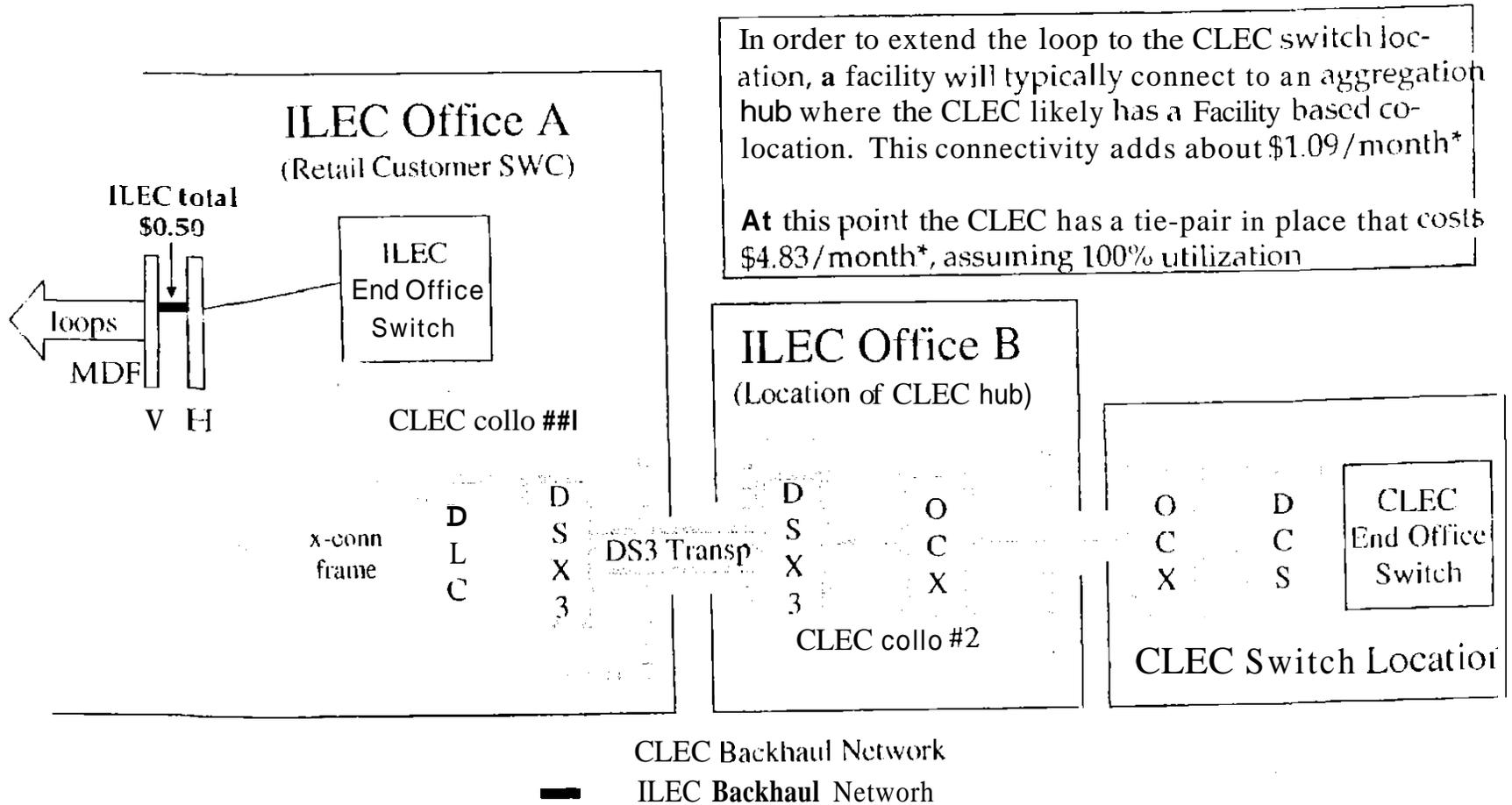
At this point the loop has yet to be extended to a different location

■ ILEC Backhaul Network

□ CLEC Backhaul Network

* All costs represent conservative estimates of industry costs and are not reflective of AT&T's actual costs

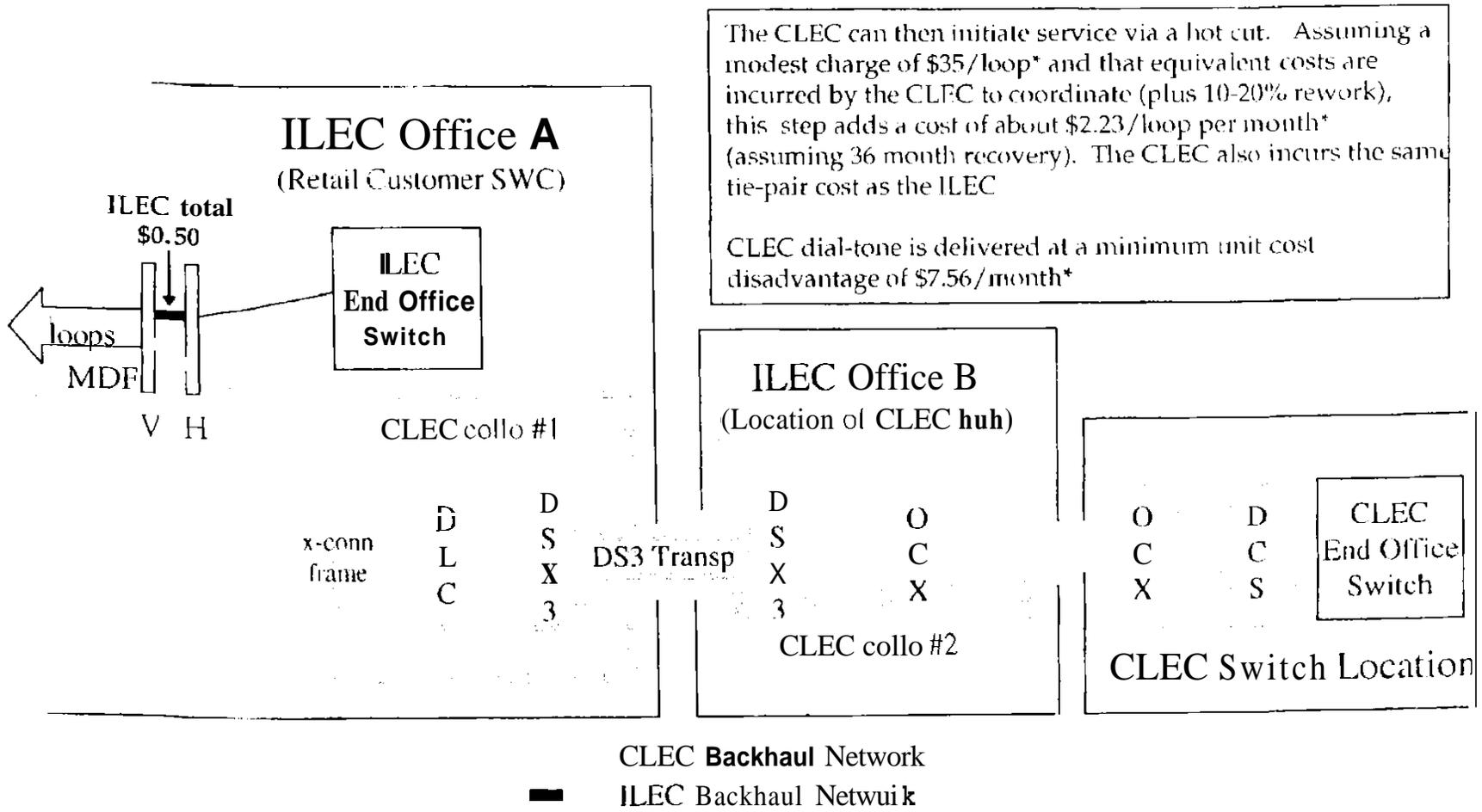
ILEC vs. CLEC loop interconnection



In order to extend the loop to the CLEC switch location, a facility will typically connect to an aggregation hub where the CLEC likely has a Facility based collocation. This connectivity adds about \$1.09/month*

At this point the CLEC has a tie-pair in place that costs \$4.83/month*, assuming 100% utilization

ILEC vs. CLEC loop interconnection



ILEC vs. CLEC loop interconnection

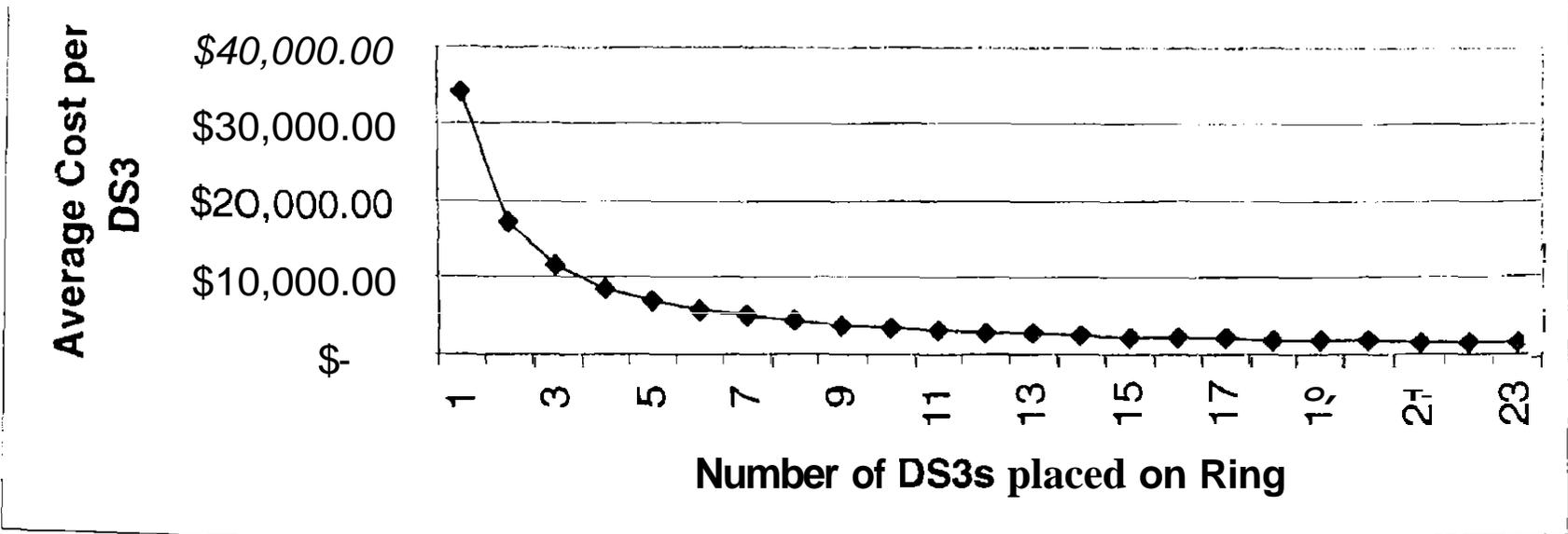
• Recap of Unit Cost Disadvantage for CLECs at 100% Utilization¹

- ✓ \$0.50/month Main Frame cross-connection
- ✓ \$2.33/month Loop Digitization (DLC)
- ✓ \$1.41/month Collocation Space
- ✓ \$1.09/month LSO-Switch Connection
- ✓ \$2.23/month Customer Transfer Cost

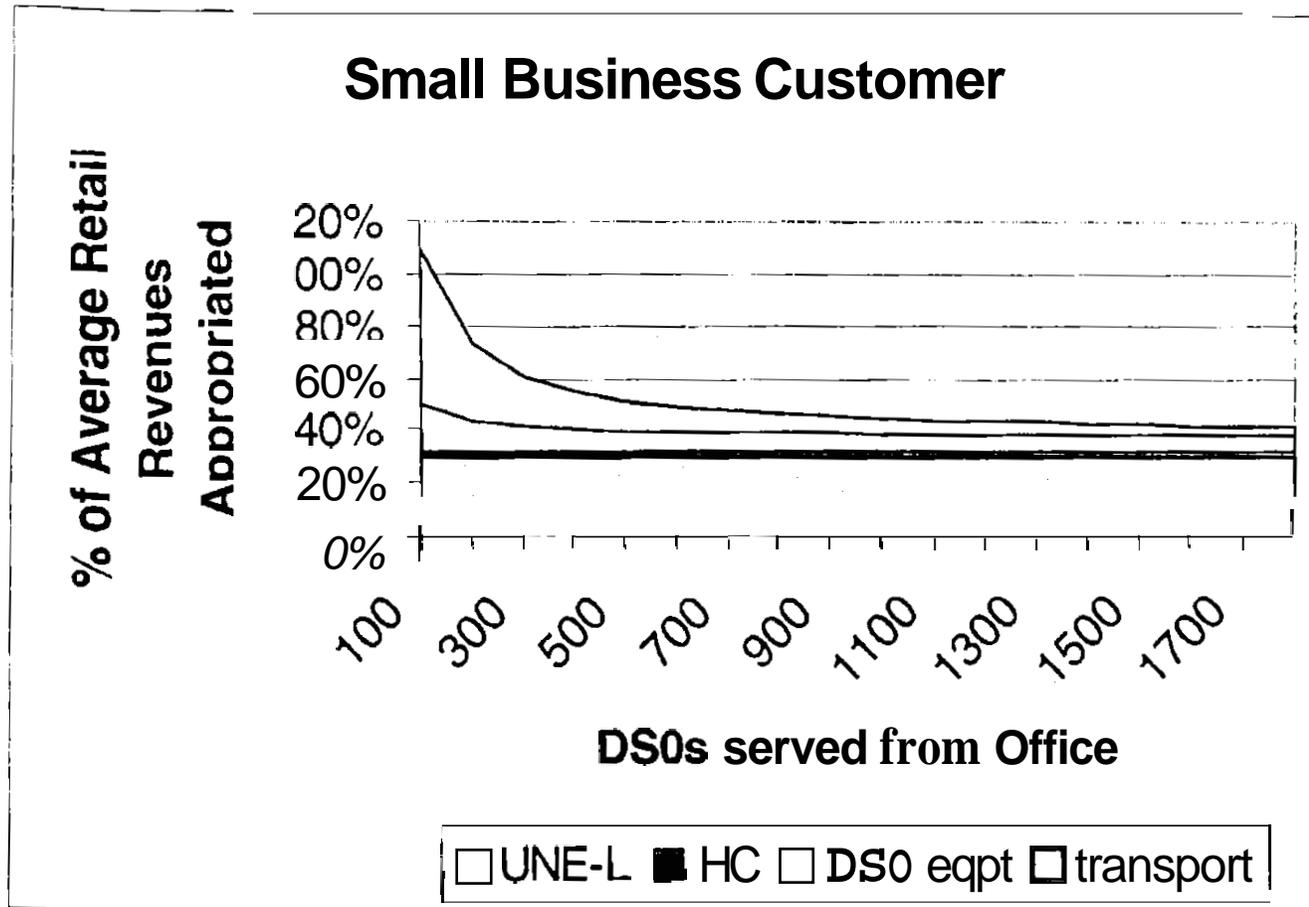
\$7.56/month "tie-pair" for CLEC versus*
\$0.50/month tie-pair for ILEC

Capacity Cost at a "Typical" Facility-Based Collocation

Average Cost per DS3 For Facility Based Collocation



Small Business Backhaul "Disadvantage" Is Sizeable



Moving Beyond Local Impairments

Electronic Access to the Loop

Local and LD PIC processes at parity

Support competing platforms for provision of broadband services

Breaches the analog wall

Support efficient aggregation of traffic on local CLEC networks

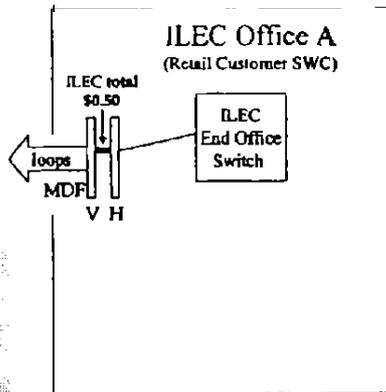
Hubbing is needed to help fill capacity for facility-based collocations

Loop, collocation and transport UNEs must be at TELRIC

No use/commingling restrictions

- **UNE-P** is essential to allow CLECs to build a customer base that will support facilities **build-out** where economically rational
- State PUC Review is Essential

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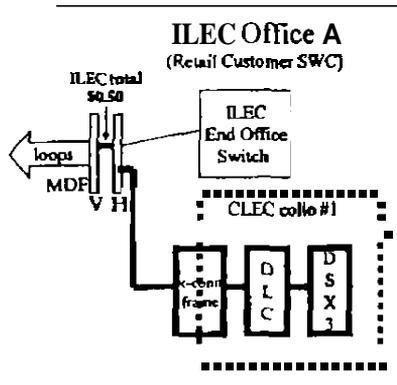
— ILEC Backhaul Network

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COST ESTIMATE INFORMATION:

ALL COSTS REPRESENTED IN THIS PRESENTATION *ARE* CONSERVATIVE ESTIMATES OF AVERAGE INDUSTRY COSTS **AND ARE** NOT REFLECTIVE OF AT&T'S ACTUAL COSTS

ILEC vs. CLEC loop interconnection



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— ILEC Backhaul Network

— CLEC Backhaul Network

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$$\begin{aligned} \text{Calculation: DLC investment} &= \$277,220 \cdot .2713 \text{ annual cost factor} / 12 \\ &= \$6267.48 \\ \text{demand capacity} &= 672 \cdot 4 = 2,688 \\ \text{monthly cost} &= 6267.48 / 2688 = \$2.33 \end{aligned}$$

$$\text{Collocation build (investment)} = \$175,000 \cdot .2713 \text{ ACF} / 12 = \$3956.46$$

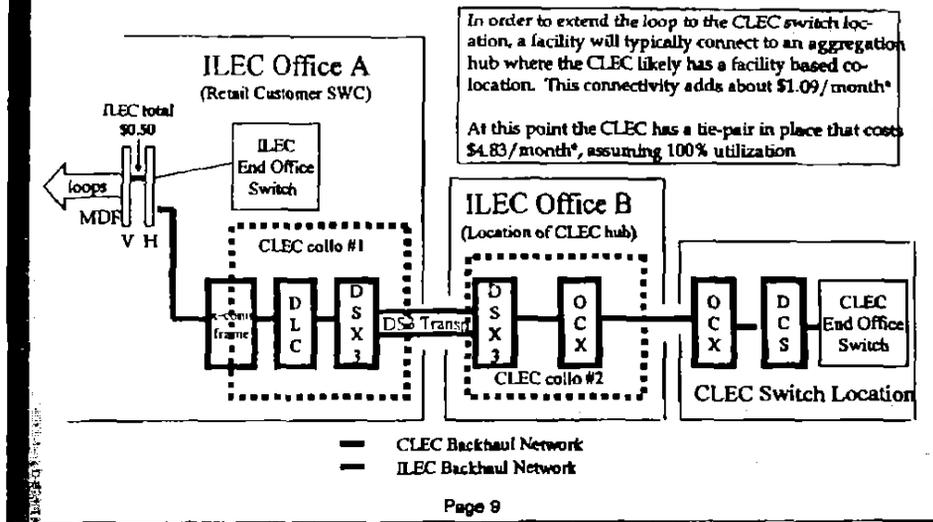
$$\text{Collocation rental (monthly)} = \$3600$$

$$\text{Total effective cost/month} = \$7556.46$$

$$\text{DLC capacity of 100 sq ft} = 8 \text{ modules} = 5376 \text{ lines}$$

$$\text{Collo cost per line} = \$7,556.46 / 5376 \text{ lines} = \$1.41 / \text{month}$$

ILEC vs. CLEC loop interconnection



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DS3 special access w/o CT at 5 year contract = ~\$1000

Capacity = 2688 VG loops per DS3

Transport to hub = \$1000/2688 loops = \$.37/month/loop

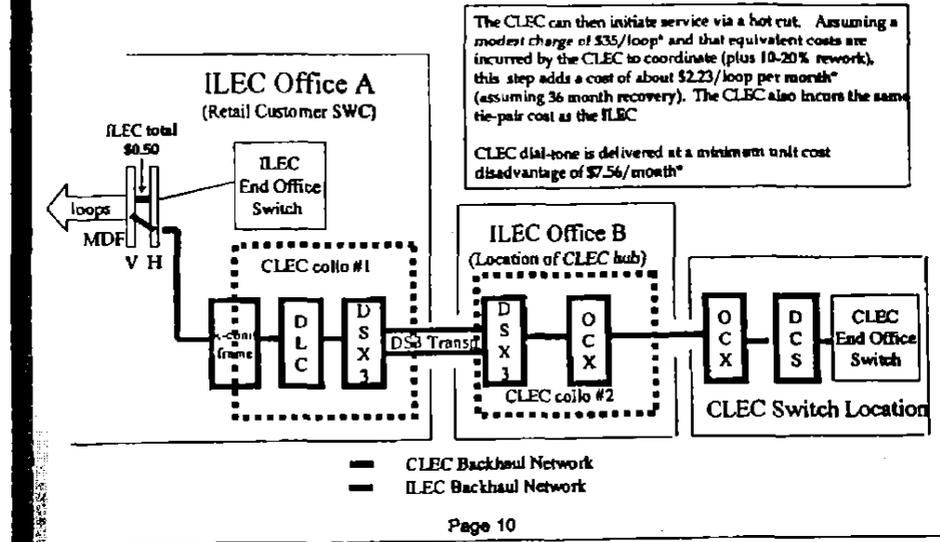
Facility-based collo = \$35,000/month

Utilization = 18 DS3

FB Node cost/DS3 = \$35,000/18 DS3 = \$1944/DS3 • 1DS3/2688 loops
= \$0.72/loop /month

Backhaul = \$0.37 + \$0.72 = \$1.09

ILEC vs. CLEC loop interconnection



Median Hot Cut charge = \$35.00

Internal cost = \$35.00

15% rework ($\$70 \cdot .15$) = \$10.50

average transfer cost/successful transfer = \$80.5

average account life = 36 months

cost/month (without any financing cost) = \$2.23/month

ILEC vs. CLEC loop interconnection

Recap of Unit Cost Disadvantage for CLECs at 100% Utilization

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