

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

AT&T Corp.	)	
Petition for Rulemaking To Reform	)	
Regulation Of Incumbent Local Exchange	)	RM Docket No. 10593
Carrier Rates For Interstate Special	)	
Access Services	)	
	)	
	)	
	)	

**DECLARATION OF PATRICK SHERIDAN  
ON BEHALF OF CABLE & WIRELESS USA, INC.**

**I. BACKGROUND**

1. My name is Patrick Sheridan. I am Senior Director in Cable & Wireless' Buying Department, which is in Cable & Wireless' U.S. Planning and Implementation Group. In this position, I am responsible for all of Cable & Wireless' network (voice, IP, data, local access, wireless, and international) purchase agreements and contract negotiations with carriers within the Americas region. I have a Bachelor's degree in Engineering Technology from California State Polytechnic University in Pomona, California and an MBA from London Business School. Prior to joining Cable & Wireless, I had similar responsibilities with Hong Kong Telecom, an incumbent carrier, from 1994 to 1998, and with Mercury Communications, a CLEC and interexchange carrier in the United Kingdom, from 1990-1994.

**II. PURPOSE AND SUMMARY OF TESTIMONY**

2. The purpose of my testimony is to demonstrate that (1) Cable & Wireless has undertaken comprehensive efforts to obtain non-ILEC suppliers of special access services, but has been largely unsuccessful; (2) Cable & Wireless has found that there is a stark contrast between dealing with ILECs for its special access needs and dealing with the few available CLECs; and (3) the prices that Cable & Wireless pays for new circuits provided by the BOCs are uniformly much higher than the prices for new circuits provided by competing carriers.

**III. IN THE VAST MAJORITY OF CASES, CABLE & WIRELESS HAS NO ALTERNATIVE TO THE BOCS.**

3. In 2001, Cable & Wireless undertook a major review of its local access strategy, with the objective of minimizing costs for local facilities while meeting the needs of its customers, who require ever increasing amounts of bandwidth. Cable & Wireless explored four major strategies to implement this objective: (1) by-pass of the ILECs whenever possible, on both an individual circuit basis and an area-by-area basis; (2) self-supply through either building its own access network, acquiring existing access networks, or partnering with existing special access suppliers; (3) renegotiation of contracts with all of its special access suppliers; and (4) establishment of contracts with next generation and regional CLECs. Cable & Wireless had virtually no success with the first two strategies, leaving it with no choice but to continue purchasing access from the BOCs.

**A. ILEC By-Pass Strategy.**

4. For purposes of pursuing bypass on an individual circuit basis, Cable & Wireless developed and maintains two databases: (1) a pricing database that is regularly updated to reflect current prices from each vendor; and (2) a building access database that identifies the

buildings served by individual CLECs. Based on the information from these two databases, along with information on other service offering parameters, Cable & Wireless developed Access Ordering Guidelines for each building in each market. These Access Ordering Guidelines rank in order of preference the vendors that are able to serve each building. When the need arises for service, Cable & Wireless personnel use the guidelines to order from the most cost effective and responsive vendor.

5. In Cable & Wireless' experience, ILECs never rank within the top vendors when non-ILEC suppliers are available. However, non-ILEC suppliers are not available for the vast majority of buildings. As explained in the Declaration of Erik Whitlock, Cable & Wireless must order from the ILEC most of the time.

6. Cable & Wireless also attempted to find vendors that could bypass the ILECs on an area-wide basis. It quickly found that such an option was not feasible, for several reasons. First, non-ILEC vendors have limited coverage in individual markets, generally less than 10% of the coverage of the ILECs. Because of this lack of coverage, none of the non-ILEC suppliers could consistently provide competitive area-wide offerings. Second, the non-ILEC vendors were forced to depend heavily on unbundled network elements ("UNEs") or special access from ILECs in order to provide a competitive offer, but such vendors were not willing to offer "service level assurances" ("SLAs"), because ILECs do not offer them. Because the vast majority of its customers require SLAs, Cable & Wireless could not use these offerings. Third, many of the largest vendors, such as WorldCom and XO, have gone bankrupt. Cable & Wireless concluded that it could not risk tying a major element of its service to a bankrupt carrier and risk service disruption for customers. Even where alternate vendors are solvent, customer concerns about potential bankruptcies generally preclude Cable & Wireless from

relying on a single vendor to bypass the ILEC. For these reasons, Cable & Wireless concluded that bypass of ILECs on an area-by-area basis was not feasible.

**B. Self-supply.**

7. As explained in the Declaration of Erik Whitlock, Cable & Wireless conducts an annual review of the merits of either building its own access network, acquiring existing access networks, or partnering with existing special access suppliers. To date, none of these strategies has proved viable, forcing Cable & Wireless to continue to lease from existing vendors.

**IV. THE STARK CONTRAST BETWEEN DEALING WITH ILECS AND CLECS.**

8. In Cable & Wireless' experience, there is a huge contrast between dealing with ILECs for its special access needs and dealing with the few CLEC suppliers that it has found. This contrast is demonstrated by its recent efforts to renegotiate contracts with all of its special access suppliers and to establish contracts with next generation and regional CLECs.

**A. Efforts To Renegotiate Contracts With Special Access Suppliers.**

9. In July 2001, to initiate the renegotiation process, Cable & Wireless sent a request for quotation ("RFQ") to 42 vendors. The objectives of this RFQ were to (1) gather market data for the negotiations and for "build versus buy" evaluations; and (2) maximize opportunities for market competition by providing information to all potential vendors on Cable & Wireless' volumes and spending. Twenty-nine vendors responded to the RFQ. Two of the BOCs, Verizon and Qwest, did not formally respond at all. Despite the lack of response from Verizon and Qwest, Cable & Wireless concluded that it would be most

productive to focus its renegotiation efforts on all four BOCs and four national CLECs. These negotiations commenced in August 2001.

10. With respect to the CLECs, Cable & Wireless reached new agreements with three out of the four. (The fourth CLEC offered significantly improved terms, but agreement was not reached because the proposed terms did not improve as much as with the other CLECs and because of delivery issues). In the new agreements, the prices for new circuits decreased an average of 26%, and by as much as 42%. The terms of the agreements decreased from 3-year minimums to 1-year minimums. On a like-for-like basis of one-year terms, the effective price decreases were up to 70%. While CLEC prices were significantly below the ILECs' prices even before the process, they were up to 80 percent below the ILECs' prices after renegotiation.

11. Cable & Wireless was not required to make any overall volume commitments or spending commitments for any of these new contracts. In addition, Cable & Wireless received specific service level guarantees with respect to numerous service order intervals and installation intervals, with firm commitments and payments by the CLEC for failure to deliver, late delivery, and service outages. Finally, Cable & Wireless' termination liability under these contracts is based on the rate differential (*i.e.*, its liability is limited to paying back the extra discounts received).

12. With respect to the four BOCs (Verizon, BellSouth, Qwest, and SBC), only one new agreement was reached. None of the BOCs offered any flexibility from their standard tariffs and all of the offered reductions were conditioned upon significant commitments for an individual circuit term (3 to 5 years) and/or overall volume of business for an extended

period (4 or 5 years). The one new agreement involved an existing contract with a significant commitment, where Cable & Wireless agreed to an increase in the commitment in return for some savings. Cable & Wireless did not receive any service level guarantees with respect to delivery or availability in this contract. As a result, Cable & Wireless' price per ILEC circuit decreased only a slight amount, mostly due to application of the annual productivity adjustment (or X-Factor). The ILEC share of Cable & Wireless' special access expenses has been steadily growing, largely because CLEC rates have been going down while ILEC rates have remained stable or gone up.

**B. Efforts To Establish Contracts With Next Generation And Regional CLECs.**

13. Cable & Wireless began efforts to establish contracts with next generation and regional CLECs in March 2002. After discussions with three CLECs, three new contracts were signed. These contracts contained prices that are up to 55% below that charged by major CLECs and up to 82% below that charged by ILECs, for a one-year circuit term. Cable & Wireless did not have to make any overall volume commitment or spending commitment for any contract. As with the major CLEC contracts, Cable & Wireless received specific service level guarantees with respect to numerous service order intervals and installation intervals, with firm commitments and payments by the CLEC for failure to deliver, late delivery, and service outages. Finally, as with the major CLECs, Cable & Wireless' termination liability is based on the rate differential (*i.e.*, its liability is limited to paying back the extra discounts received).

**V. THE BOCS' PRICES FOR NEW CIRCUITS ARE UNIFORMLY MUCH HIGHER THAN THE PRICES CHARGED BY COMPETING CARRIERS.**

14. The prices that Cable & Wireless pays for new circuits provided by the BOCs are uniformly much higher than the prices for new circuits provided by competing major CLECs. This is true for every BOC, and every major type of circuit. In the Qwest region, for example, Cable & Wireless pays Qwest nearly \$400 for a DS1 circuit, while it pays major CLECs from \$150 to \$220 for the same circuit.<sup>1</sup> With respect to DS3 circuits, Cable & Wireless pays Qwest over \$3,700, while it pays major CLECs from \$1,200 to \$2,200.

15. The same is true in all of the other BOC regions. In the SBC region, for example, for DS1 circuits, Cable & Wireless pays SBC about \$500, but pays major CLECs less than \$250. For DS3 circuits, Cable & Wireless pays SBC over \$5,000, but pays major CLECs from \$1,200 to \$1,500. For OC3 circuits, Cable & Wireless pays SBC about \$6,600 but pays major CLECs from \$2,800 to \$3,500. For OC12 circuits, Cable & Wireless pays SBC about \$14,500, but pays major CLECs less than \$10,000.

16. In the Verizon region, for DS1 circuits, Cable & Wireless pays Verizon over \$600, but pays major CLECs from \$150 to just under \$300. For DS3 circuits, Cable & Wireless pays Verizon nearly \$6,000, but pays major CLECs from \$1200 to a little over \$2000. For OC3 circuits, Cable & Wireless pays Verizon over \$14,000, but pays major CLECs from \$2,800 to \$5,400. For OC12 circuits, Cable & Wireless pays Verizon more than \$30,000, but pays major CLECs from \$8,500 to just under \$20,000.

17. In the BellSouth region, for DS1 circuits, Cable & Wireless pays BellSouth about \$500, but pays major CLECs from \$150 to \$250. For DS3 circuits, Cable & Wireless pays BellSouth just over \$5,000, but pays major CLECs from \$1,200 to \$2,200. For OC3

---

<sup>1</sup> All quoted prices are based on one-year contracts, and are for a five-mile, stand-alone circuit.

circuits, Cable & Wireless pays BellSouth about \$8,500, but pays major CLECs from \$2,800 to \$5,400. For OC12 circuits, Cable & Wireless pays BellSouth nearly \$14,000, but pays major CLECs from \$7,400 to just over \$9,800.

18. In many instances, the ILECs' excessive rates preclude Cable & Wireless from offering services to end users, including broadband services. For example, CLEC rates for OC circuits (which are the circuits for the highest bandwidths) are dramatically lower than ILEC rates in a number of markets. The cost differential is so great in some markets that Cable & Wireless is literally precluded from offering the service to end users on a cost-effective basis unless it can use a CLEC. For example, as demonstrated in the Declaration of Erik Whitlock, in 2002, Cable & Wireless installed only 237 OC circuits for its end users, and approximately 96% of these were provided by CLECs. That is because Cable & Wireless offers these services only in the limited circumstances where it can avoid the ILECs' high rates.

**VERIFICATION PAGE**

I declare under penalty of perjury that the foregoing Declaration is true and correct.

 \_\_\_\_\_

Executed on: January 23, 2003