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

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

DECLARATION OF ERIK WHITLOCK ON BEHALF OF CABLE & WIRELESS USA, INC.

I. BACKGROUND

1. My name is Erik Whitlock. I am a Director of Economic Analysis in Cable & Wireless' Economic and Regulatory Analysis department. In this position I am responsible for various aspects of network costing and service pricing. I have a Ph.D. degree in Economics from Indiana University. Prior to joining Cable & Wireless in 1998, I worked in telecommunications consultancy with Nathan Associates and BMP International, Ltd.

II. PURPOSE AND SUMMARY OF TESTIMONY

2. The purpose of my testimony is to demonstrate that (1) Cable & Wireless must order special access services from the ILEC for the vast majority of buildings; and (2) Cable & Wireless has explored the possibility of self-supplying its own special access needs, either through building its own access network, acquiring existing access networks, or partnering with existing special access suppliers, but has concluded that none of these strategies is viable.

III. IN THE VAST MAJORITY OF CASES, CABLE & WIRELESS IS FORCED TO ORDER SPECIAL ACCESS SERVICES FROM THE ILEC.

3. As demonstrated in the Declaration of Patrick Sheridan, Cable & Wireless has undertaken comprehensive efforts to obtain non-ILEC suppliers of special access services. Despite these diligent efforts, however, Cable & Wireless is forced to order special access services from the ILEC in the vast majority of cases. For example, in 2002, of the 4168 total new special access circuits installed by Cable & Wireless for end users, approximately 85% were purchased from ILECs. The vast majority of the new special access circuits installed (3179 circuits) were DS1 circuits, approximately 95% of which were provided by ILECs.

4. There are some limited instances in which CLEC installations predominate, but this is only because Cable & Wireless cannot offer these services at all unless it can avoid the ILECs' high rates. As demonstrated in the Declaration of Patrick Sheridan, in many instances, the ILECs' excessive rates entirely preclude Cable & Wireless from offering particular services to end users. For example, as Mr. Sheridan explains, CLEC rates for OC circuits are dramatically lower than ILEC rates in a number of markets, so much so that Cable & Wireless cannot offer the service to end users on a cost-effective basis unless it can use a CLEC. As a result, in 2002, Cable & Wireless installed only 237 OC circuits for its end users, and approximately 96% of these were provided by CLECs.

IV. CABLE & WIRELESS HAS CONCLUDED THAT SELF-SUPPLY IS NOT FEASIBLE.

5. 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.

6. The costs to Cable & Wireless of building and operating its own local facilities to all of the buildings it serves would be tremendous. The capital costs alone could be several billion dollars. Moreover, building in one or more cities would require several years, making an "own-build" option a long-term, but not a short- or medium-term, solution.

7. Whether such an investment is justified depends on whether Cable & Wireless could lower its per-unit costs to a competitive level, which in turn depends on how many customers it could serve over the relevant facilities. The economics of building facilities depends critically on whether there is a large amount of traffic aggregated in individual locations. A carrier cannot make a viable business case for investment in an access network if the carrier, as most do, has lots of customers in a city but they are widely distributed.[1] To make a build cost-effective, a carrier typically needs three to four significant customers in a single building. Cable & Wireless is unlikely to achieve such building-by-building scale economies very often, because its retail IP services are highly specialized.

8. CLECs face other insurmountable obstacles. Most importantly, non-ILECs find that obtaining access to buildings from landlords is much more difficult and expensive than it is for the ILECs. No building owner can realistically deny access to the ILEC because of its monopoly position, but new entrants do not have such leverage and are often charged excessive amounts to gain entry to buildings. This puts them at a cost disadvantage when trying to gain customers.

[1] The further customers are from the point of origination of the loops, the less favorable the economics. The recent trend of businesses relocating to the "outer suburbs" makes the business case for local networks increasingly unattractive.

9. Acquisition of "undervalued" (*i.e.*, bankrupt or failing) networks is also infeasible. Many major facilities-based CLECs have gone bankrupt in recent years, and most others have seen their share prices plummet. Cable & Wireless has considered acquiring such companies, but has not done so for several reasons. First, in many cases, the economic obstacles described above rendered the acquisition unattractive from a long-term business standpoint in any event. Moreover, a carrier must always consider the scale economies and the potential customer base – *i.e.*, there must be a certain level of synergy between the customer base of the acquirer and the acquiree. For all acquisition targets Cable & Wireless considered, the existing and potential customer bases did not justify the acquisition.

VERIFICATION PAGE

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

Executed on: January 23, 2003