



Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of )  
 )  
AT&T CORP. )  
 )  
and )  
 )  
SBC COMMUNICATIONS INC. )  
 )  
Application Pursuant to Section 214 of the )  
Communications Act of 1934 and Section 63.04 )  
of the Commission's Rules for Consent to the )  
Transfer of Control of AT&T Corp. to SBC )  
Communications Inc. )  
\_\_\_\_\_ )

WC Docket No. 05-65

DOCKET FILE COPY ORIGINAL

RECEIVED

APR 25 2005

Federal Communications Commission  
Office of Secretary

**DECLARATION OF GARY ZIMMERMAN**

1. My name is Gary Zimmerman. My business address is 1 Savvis Parkway, Town & Country, Missouri, 63017. I am Vice President of Global Client Service – Carrier Management for SAVVIS. I have worked for SAVVIS since 1995. My current responsibilities include negotiating contracts for special access circuits with other telecommunications carriers worldwide. I am also responsible for preparing performance “report cards” on all the carriers from whom SAVVIS purchases special access circuits on a quarterly basis. My organization is the focal point within SAVVIS for managing all issues and problems related to special access services.

2. The purpose of my declaration is to describe SAVVIS' current use of special access circuits and the negative impact that the SBC-AT&T merger would, if consummated as proposed, have on the market for special access and on SAVVIS. As further described herein, the special access market is already highly concentrated, and it

No. of Copies rec'd 4  
List ABOVE

will become still more concentrated if this transaction is allowed to proceed. Indeed, the transaction could eliminate AT&T as one of SAVVIS' largest suppliers of special access circuits. In short, for the reasons set forth below, SAVVIS and similarly situated companies likely will face higher special access rates and diminished quality of service if this merger is concluded as proposed.

**I. SAVVIS IS A GLOBAL INFORMATION TECHNOLOGY SERVICE PROVIDER.**

3. SAVVIS is a global information technology services company with over 5,000 customer endpoints in the financial services, media, retail, professional services, healthcare, manufacturing, government (including the U.S. federal government) and other sectors. The company's revenues in 2004 exceeded \$600 million.

4. SAVVIS provides its customers with a full range of information technology services that allows them to establish large-scale managed internal networks, including (1) end-to-end large-scale managed Internet Protocol virtual private networks (known as IP VPNs); (2) hosting facilities, networks, servers, and storage offered through 24 data centers located in the United States, Europe, and Asia; (3) infrastructure tied to workflow applications that enhance the creation, production and distribution of digital content and streaming media; and (4) a broad range of network services to support voice, video, data, and web applications. These network services include providing businesses with public Internet access in the United States, Europe, and Asia at speeds from fractional T-1 to full OC192. Unlike Internet Service Providers ("ISPs") that provide only the "last mile" physical connection between end-users and the nearest network node connected to the public Internet, SAVVIS is a true Internet Backbone Provider ("IBP"), owning and operating the high-volume fiber "pipes" and associated transmission equipment that

physically connect Internet nodes around the country and even the world. SAVVIS' network, however, reaches only its own customers – without peering between IBPs, the network would be an island of SAVVIS customers only. In other words, without peering interconnections between IBPs such as SAVVIS and competitors such as SBC, Qwest, AT&T, MCI, Level 3, Sprint, and Broadwing, the Internet literally would not work and data packets could not traverse the globe with the high-speed and low-cost universal connectivity that end-users have grown to expect.

5. Customers (including ISPs) can purchase SAVVIS' Internet backbone service either individually or in combination with the other services described above. For example, a business could use a SAVVIS private network to connect its offices and SAVVIS Internet backbone services to reach its customers or partners. For large enterprise or carrier customers, SAVVIS also offers High Speed Dedicated Internet Access (HS-DIA), which is unmanaged and delivered at speeds ranging from OC3 to OC192. SAVVIS offers its customers contracts that are typically one to three years in length. All of the SAVVIS Managed Service contracts contain Service Level Agreements (SLAs) with guarantees for network availability, throughput, latency, packet loss and jitter, and service credits for failure to meet them.

6. In order to provide its private networking and Internet backbone services, SAVVIS owns and operates an extensive infrastructure that includes approximately 50 MPLS switches, 200 backbone routers, 17,000 access devices at customer locations, and hundreds of Points of Presence, or PoPs, in 47 countries. This network is designed with highly redundant backbone infrastructure including diversely-routed long haul and local access connections from multiple carriers, and employs a ring architecture so that at least

two different paths exist between switching facilities resulting in a self-healing, fault-tolerant network.

**II. THE MARKET FOR SPECIAL ACCESS SERVICES IS HIGHLY CONCENTRATED.**

7. SAVVIS uses special access circuits to provide tails (*i.e.*, loops) that connect end-user customers to SAVVIS' Internet backbone via points of presence ("PoPs"). As a practical matter, SAVVIS always purchases "tails" from a third-party provider. SAVVIS does not self-provision its own loop facilities for three fundamental reasons. First, economies of scale make self-provisioning uneconomic. Most of the cost of deploying transmission facilities is in the supporting structures, placement, rights of way, and access to buildings, and not in the conductors (fiber strand or copper wires) themselves.

Because the cost of the supporting structures is relatively insensitive to the number of lines deployed, the BOCs enjoy substantial economies of scale that competitors like SAVVIS simply cannot match. Second, transmission facilities are characterized by substantial sunk costs. An investment is sunk if, once made, it cannot be redeployed for some other use. Investments spent on trenching, structure, and rights of way for a loop clearly fall into this category. Indeed, it is basic economics that the need to incur significant sunk costs to deploy facilities that have substantial economies of scale establishes a significant barrier to entry. Finally, SAVVIS also faces other entry barriers, such the limited building access and access to rights of way that combine to make the deployment of loop facilities a practical impossibility in many circumstances.

8. In my experience, because competitive providers have not been able to replicate the incumbent LECs' transmission facilities, the market for special access services is highly concentrated. In the vast majority of cases, there are no practical alternatives to

the BOCs' special access services. To date, CLECs have only established alternative facilities to a small fraction of buildings. Moreover, most of the major CLECs that provided alternative access have gone bankrupt.

9. Significantly, even in situations where CLECs do offer special access facilities, those companies most often merely resell special access provided by the BOC. This is because, as a practical matter, would-be competitors to the BOCs face most of the same barriers to the deployment of special access facilities that – as described above – SAVVIS faces in self-provisioning its own loop facilities. The market for special access services thus remains dominated by the BOCs, with the limited degree of competition that does exist depending substantially on the resale of BOC special access services by large IXCs (such as AT&T, MCI, and Sprint) and CLECs.

10. Despite the scarcity of alternatives to the BOCs, SAVVIS uses competitive providers of special access circuits whenever possible. Today, [REDACTED] of SAVVIS' special access circuits are provisioned by AT&T and MCI. Of those circuits, *approximately* [REDACTED] *are BOC circuits resold by AT&T and MCI.* Such circuits are generally referred to as "Type 2 circuits." A much smaller amount of the special access circuits purchased by SAVVIS are provisioned directly by the ILEC. These circuits are referred to as "Type 1 circuits." Though SAVVIS prefers to purchase Type 1 service, in reality, very few of the circuits purchased by SAVVIS are Type 1 circuits offered by competitors.

11. SAVVIS purchases the vast majority of its special access circuits from the large interexchange carriers primarily because it obtains better special access rates from the IXCs than it could from the BOCs. BOCs set rates for special access based on a carrier's

“buy” or “commit to buy” rate. In other words, the BOC provides a discount to the carrier off the normal tariffed rate if that carrier commits to purchasing a set monetary amount of special access services each month, usually for a term of one, three, or five years. BOCs also typically sell special access circuits through a single contract that covers their entire region, and not on an MSA or route-specific basis.

In my estimation, SAVVIS typically buys fewer special access circuits per month nationwide than the large IXCs such as AT&T buy per month from *each* BOC. AT&T thus gets a larger discount on special access than every other carrier, including SAVVIS, because it has a higher buy rate. AT&T passes on this discount when it resells Type 2 special access circuits to SAVVIS. Hence, SAVVIS is able to leverage the IXC’s buy rate to get a lower price (and better service) for special access than if SAVVIS bought directly from the BOC.

12. SAVVIS also purchases the majority of its special access circuits from IXCs, and not CLECs, because the IXCs have much larger networks. For example, I estimate that AT&T, MCI, and Sprint can resell special access services in every LATA nationwide. By contrast, XO – the CLEC with the largest national network – only serves approximately 10 percent to 15 percent of all LATAs. Although other CLECs have built networks in certain niche markets, no CLEC can rival the scope of the large IXCs. Thus, because the market for special access is defined by BOC region, SAVVIS primarily purchases special access circuits from the large IXCs. This is because purchasing from the IXCs allows SAVVIS to purchase circuits throughout a BOC region, or even throughout the nation, using a single contract. Indeed, in many markets, the large IXCs are the only alternative to the BOC. Thus, eliminating AT&T and MCI as competitive

providers of special access circuits could leave only one competitive provider with a national footprint – Sprint.

13. Finally, it is SAVVIS' policy to buy from the IXCs whenever possible because managing relationships with the BOCs requires greater resources. Currently, SAVVIS employs five people to manage relationships with 20 carriers nationwide. However, if SAVVIS were to enter into an agreement with a BOC, it would have to double the size of its carrier management staff, because the BOCs are tougher to manage. Indeed, SAVVIS buys the majority of its special access circuits from AT&T and MCI because these large IXCs view SAVVIS as a significant and valued customer. The BOCs, by contrast, view SAVVIS as a "niche" carrier – and thus a less valued customer – based on our monthly recurring revenue, which falls far short of the large IXCs.

## **II. SAVVIS' CONCERNS ABOUT THE MERGER**

14. The merger between SBC and AT&T raises three primary concerns for SAVVIS' business. First, SAVVIS likely will lose one of its largest suppliers of special access circuits. Today, there are only three primary competitors in the special access market nationwide: AT&T, MCI, and Sprint. The merger of SBC and AT&T will therefore reduce the number of potential competitors in SBC's 13-state region from three potential suppliers to two. Indeed, if AT&T merges with SBC, AT&T likely will cease to provide Type 2 special access circuits to SAVVIS in SBC's 13-state region. As a result, pricing could increase where AT&T is no longer a competitive alternative to the BOC. And, other than possibly Sprint, no other carrier purchases the same volume of special access circuits as AT&T and MCI. This likely will leave SAVVIS with a single alternative with a national footprint for Type 2 special access circuits. Of course, Sprint may not have the

buying power to be eligible for discounts that are comparable to those received by AT&T and MCI today. Thus, even if SAVVIS buys Type 2 circuits from Sprint, SAVVIS is likely to see a price increase.

15. Further, in today's market, AT&T – by virtue of both its demand and its unused fiber capacity – exerts some disciplining effect on SBC's special access pricing. AT&T receives the most favorable special access rates and terms based on the fact that it is one of SBC's largest special access customers, with a large amount of internal capacity. As a result of AT&T's volume of demand, and the implicit threat that AT&T could more aggressively groom circuits off SBC's network onto its own or others, AT&T is more able to secure the most favorable special access rates and terms. This exerts some discipline on special access rates in general. But if the merger is consummated, this discipline will no longer constrain SBC. In short, AT&T is one of SBC's largest competitors and customers in the special access market. The loss of AT&T is therefore likely to result in an increase in the rates paid by all special access customers within SBC's 13-state region.

16. Moreover, it will be difficult for SAVVIS to move its special access circuits from AT&T to another competitive carrier, such as Sprint. Moving an end user customer from one carrier to another takes a great deal of resources and may result in a service disruption. This jeopardizes SAVVIS' relationship with the customer. Further, SAVVIS might not be able to find another competitive carrier with a national footprint to replace AT&T. As discussed above, very few providers can duplicate the ILEC's network – which currently provides distribution plant to every customer premises within its service area – because of the high fixed and sunk costs, economies of scale, and first mover



advantages associated with deploying loops and transport. Thus, as a result of the merger, SAVVIS will have little choice but to purchase special access service ultimately from SBC within its 13-state region.

17. Second, the acquisition of AT&T by SBC could degrade special access service quality for non-affiliated carriers. It is likely that as a result of the merger, SBC will move all of AT&T's special access circuits from third-party providers onto SBC's own network to avoid losing customers through possible divestiture of these facilities as a condition of the merger. For instance, after AT&T acquired TCG, it flooded TCG with orders for special access circuits as AT&T tried to move customers on-net. As a result, circuit delivery intervals increased dramatically. If SBC uses the same strategy, the net result will be that service to non-affiliated carriers will decline as SBC tries to process all of its orders from AT&T. Indeed, SBC has every incentive to discriminate in favor of its new long distance affiliate, AT&T. Likewise, the provision of special access circuits to non-affiliated carriers will also decline as AT&T concentrates on moving its special access circuits onto SBC's network, not the needs of its wholesale customers, including SAVVIS. This will render non-affiliated carriers such as SAVVIS non-competitive, because SAVVIS will not be able to deliver circuits to its end user customers within the same timeframe, and at the same level of service quality, as SBC.

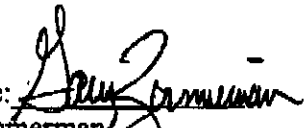
18. Third, the SBC-AT&T and Verizon-MCI mergers could reach anti-competitive agreements for special access pricing. The mergers, if consummated as proposed, would create two players with huge volumes of special access circuits. Based on their enormous buy rates, each BOC could offer the other deeply discounted special access services out-of-region. But no other carrier would be able to qualify for these sweetheart deals

Redacted – For Public Inspection

because they will never have the same volume of traffic as the BOCs. As a result, SAVVIS and other non-affiliated carriers will not be able to compete on price, because SBC-AT&T and Verizon-MCI will have lower input costs.

**VERIFICATION**

I declare that the foregoing is true and correct.

Signature:   
Gary Zimmerman  
Vice President of Global  
Client Service - Carrier  
Management  
SAVVIS Communications,  
Inc.

Dated: April 25, 2005