

SBC/AT&T Merger: Competitive Analysis of Special Access

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*LEX***ECON**

The logo for LEXECON features the word "LEX" in a grey, italicized serif font, followed by "ECON" in a bold, red, italicized serif font. A dashed grey arc curves from the top left of the "E" in "ECON" down and to the left, ending near the bottom of the "L" in "LEX".

Redacted for Public Inspection

Major Conclusions

The SBC/AT&T merger does not raise significant competitive concerns regarding special access.

- AT&T serves only a tiny fraction of commercial buildings through its fiber network.
- Numerous other CLECs have deployed fiber networks in SBC's region, so the vast majority of fiber-lit buildings served by AT&T are also served by other CLECs and/or are located near other fiber networks.
- Prof. Wilkie's analysis significantly mischaracterizes the risks of harm to competition in the provision of access services and relies on data that are both inappropriate and inaccurate.

Overview: The proposed transaction will not have a significant adverse effect on access competition.

- AT&T provides fiber access to only a tiny percentage of commercial buildings.
- Most AT&T-lit buildings are already served or readily could be served by other CLECs.
 - Other CLECs already serve many of the AT&T-lit buildings.
 - CLECs are not “impaired” in serving most other AT&T-lit buildings.
- Numerous other CLECs provide fiber-based access services, so many AT&T-lit buildings are in close proximity to other CLECs’ fiber.
- Thus there are at most a very small number of scattered buildings that potentially raise competitive issues and even these buildings often have competitive alternatives.

Data Analysis: Background

- GeoTel fiber route data contain route information from reporting carriers and other sources, such as construction permits.
 - Certain carriers are not reported in GeoTel.
 - GeoTel data underreport network coverage for certain CLECs (such as AT&T, which does not provide route information to GeoTel).
 - GeoTel does not identify dark fiber and IRUs sold to other carriers. (These may be reflected if the purchasing carrier reports its routes to GeoTel.)
 - GeoTel does not distinguish lit and dark fiber.

- AT&T maintains information on:
 - Fiber-lit buildings served by AT&T;
 - Some of the fiber lit buildings served by some of the CLECs that seek to supply access services to AT&T.

Data Analysis: Background

- We focus our analyses here primarily on the four MSAs singled out by Prof. Wilkie.
- GeoTel appears to underreport the scope of certain networks. This suggests that a number of buildings are closer to CLEC networks than implied by GeoTel data.
- The AT&T data underreport the number of CLEC-lit buildings because they include data from a limited set of CLECs. Therefore, there are more competitive alternatives than the AT&T data would indicate.

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Building Counts

	19 overlap MSAs	Chicago, Cleveland, Milwaukee and LA
Commercial Buildings with more than 10 line equivalents	263,151	99,738
AT&T Fiber Lit Buildings	1,691	
AT&T Fiber Lit Buildings as a percentage of commercial buildings	0.6%	[Redacted]

Source: AT&T; D&B.

AT&T's fiber-lit buildings comprise a small percentage of buildings where AT&T provides retail services.

Building Counts

	<u>19 overlap MSAs</u>	<u>Chicago, Cleveland, Milwaukee and LA</u>
AT&T buildings served through SBC special access		
AT&T lit buildings	1,691	[Redacted]
Percentage comprised by lit buildings		

Source: AT&T.

Most AT&T served buildings are already served or readily could be served by other CLECs.

- Other CLECs already serve many of the AT&T-lit buildings.
- CLECs are not “impaired” in serving many other AT&T-lit buildings.

Analysis of AT&T Fiber-Lit Buildings

	All overlap MSAs	Chicago, Cleveland, Milwaukee & LA
Commercial buildings with more than 10 line equivalents	263,151	99,738
AT&T-Lit Buildings	1,691	
Less: AT&T-Lit Buildings Known to be Served by Other CLECs		[Redacted]
Less: Additional Buildings Subject to Multiple Competitive Supply under Impairment Test		
Remaining AT&T Buildings	401	101
As a Percentage of Commercial Buildings	0.15%	0.10%

Source: D&B, AT&T and SBC.

Note: AT&T's estimate of the number of buildings served by other CLECs has been revised since filing of Reply Declaration.

- There is no significant reduction in access competition as the Remaining AT&T Buildings account for less than 0.15 percent of commercial buildings.
- Roughly 85 percent of the Remaining AT&T Buildings are in wire centers where AT&T-reported CLECs other than AT&T already serve buildings with their own fiber.

Numerous other CLECs provide fiber-based access services, so many AT&T-lit buildings are in close proximity to other CLECs' fiber.

Fiber Networks Reported in GeoTel and AT&T CLEC Data

	Chicago	Cleveland	Los Angeles	Milwaukee
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[Redacted]

Total	14	15	19	6
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Notes: * denotes networks reported in AT&T CLEC database only.

** denotes networks reported in GeoTel and AT&T CLEC database.

The absence of an asterick indicates the network is reported in GeoTel only.

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Most AT&T-lit buildings are in close proximity to other CLECs that provide fiber-based access services.

Average number of non-AT&T CLECs within given radius

City	Number of AT&T Buildings	Miles			
		1/20	1/10	1/4	1/2
Total*					
Chicago					
Cleveland					
Los Angeles					
Milwaukee*					

[Redacted]

Source: GeoTel, AT&T.

* GeoTel does not report route information for Time Warner Telecom and MCI in Milwaukee. As a result these figures understate the number of non-AT&T CLECs within a given radius of AT&T buildings in Milwaukee and thus in the 4-city total.

Prof. Wilkie's analysis significantly mischaracterizes the risks of harm to competition in the provision of access services and relies on data that are both inappropriate and inaccurate.

Prof. Wilkie's analysis significantly mischaracterizes risks of harm to access competition.

- Prof. Wilkie and Responding CLECs do not distinguish AT&T's provision of "type I" and "type II" services.
 - "Type I" access is fully provided over AT&T facilities; "type II" access reflects the use of the ILEC's facilities in whole or part.
- AT&T's "type II" connections are not a unique competitive constraint on the pricing of SBC special access services because other CLECs can and do provide the same kind of type II connections.

Prof. Wilkie's analysis significantly mischaracterizes risks of harm to access competition.

Prof. Wilkie fails to distinguish "type I" and "type II" access services

	<u>Cleveland</u>	<u>Milwaukee</u>
Buildings served by AT&T as reported by Prof. Wilkie based on GeoResults	1,630	2,106
Buildings directly served by AT&T ("type I")	[Redacted]	

Note: We are unable to replicate Prof. Wilkie's results.
Source: Wilkie Ex Parte, AT&T

Prof. Wilkie's analysis significantly mischaracterizes risks of harm to access competition.

- There is no basis to the Responding CLECs' claim that "AT&T is able to leverage the discount it receives from SBC for special access to offer competitively low prices in the wholesale market."
 - AT&T receives no unique volume-based discounts.
 - AT&T sells a very limited amount of "type II" access services to other CLECs.
 - Two of the three Responding CLECs are buying no access of any type from AT&T in the SBC region and the third purchases a minimal amount.
- There is no basis to conclude that AT&T has a unique ability to offer type II access service that will be lost as a result of the transaction.
 - Other CLECs have extensive network coverage in the areas covered by AT&T's network.

Conclusions

- AT&T provides type I access services to only a tiny percentage of commercial buildings.
- Numerous other CLECs have deployed extensive fiber networks in SBC's region.
- The large majority of AT&T-lit buildings are served by other CLECs and/or are near other CLEC fiber networks.
- Prof. Wilkie's analysis significantly mischaracterizes the risks of harm to competition and relies on data that is both inappropriate and inaccurate.

The SBC/AT&T merger does not raise significant competitive concerns regarding special access.