



October 13, 2009

Writer's Direct Dial: 703.755.6730  
Facsimile Number: 703.755.6740  
Sheba.Chacko@bt.com

*Via Electronic Filing*

Ms. Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, S.W.  
Washington, DC 20554

*EX PARTE NOTICE*

RE: *Special Access Rates for Price Cap Local Exchange Carriers, WC Docket 05-25  
A National Broadband Plan for Our Future, GN Docket 09-51*

Dear Ms. Dortch:

Pursuant to Section 1.1206 of the Commission's rules, BT hereby gives notice that on October 9, 2009, Sheba Chacko (Head, Americas and Global Operational Regulation) met with Sharon Gillett, Nick Alexander and Jennifer Prime of the Wireline Bureau.

BT urged the FCC to address access bottlenecks including special access and Ethernet access. BT highlighted the benefits that addressing access bottlenecks can have on key markets like health IT and small and medium sized businesses. Information in the attached slidepack was discussed.

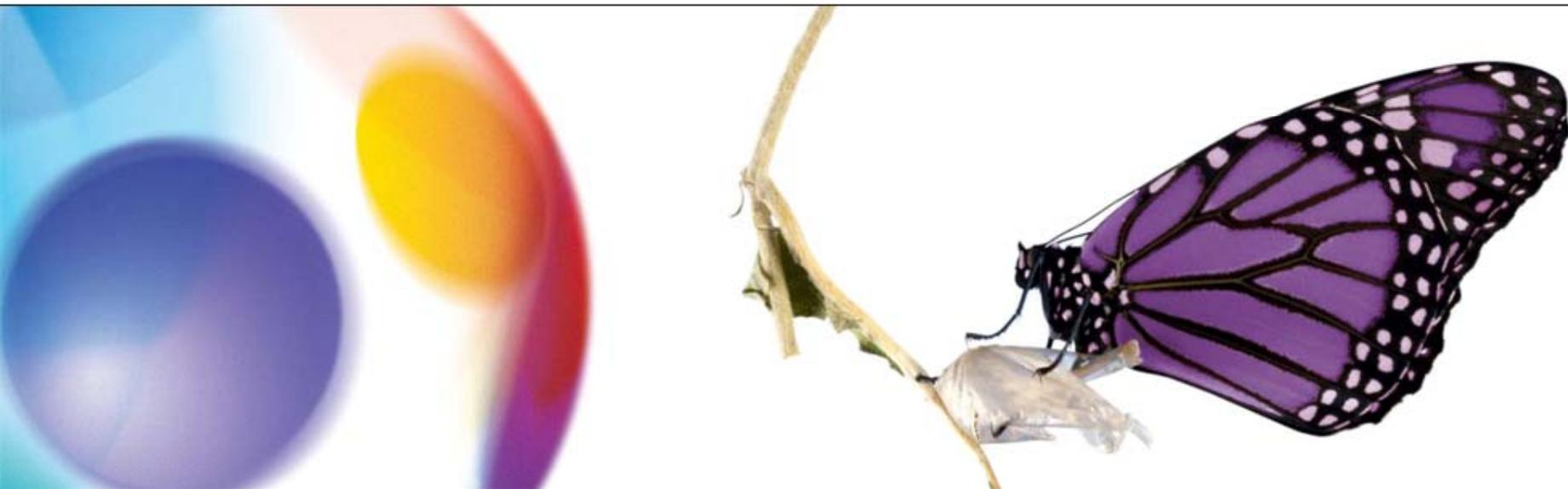
If you have any questions regarding matters discussed herein, please contact the undersigned.

Sincerely,

A handwritten signature in black ink that reads "SChacko". The signature is written in a cursive, slightly slanted style.

Sheba Chacko  
Head, Global Operational Regulation and Americas  
Regulation - BT Global Services

cc: Sharon Gillett  
Nicholas Alexander  
Jennifer Prime



# Impact of Unaddressed Access Bottlenecks

October 2009

# Background

- BT – Global provider of managed network services, applications, consulting, and systems
  - Global customers are multinational companies.
  - More than half of BT's top 2,000 customers are either headquartered in the U.S. or are European companies with significant operations in the Americas.
  - Six of BT's last 22 acquisitions are US-based companies.
  - In 2008, BT acquired Ribbit, a Silicon Valley-based voice applications company.
- BT – UK incumbent service provider serving consumers, SMEs, government and large enterprises.

# USA infrastructure – unaddressed access bottlenecks are causing higher prices and less innovation

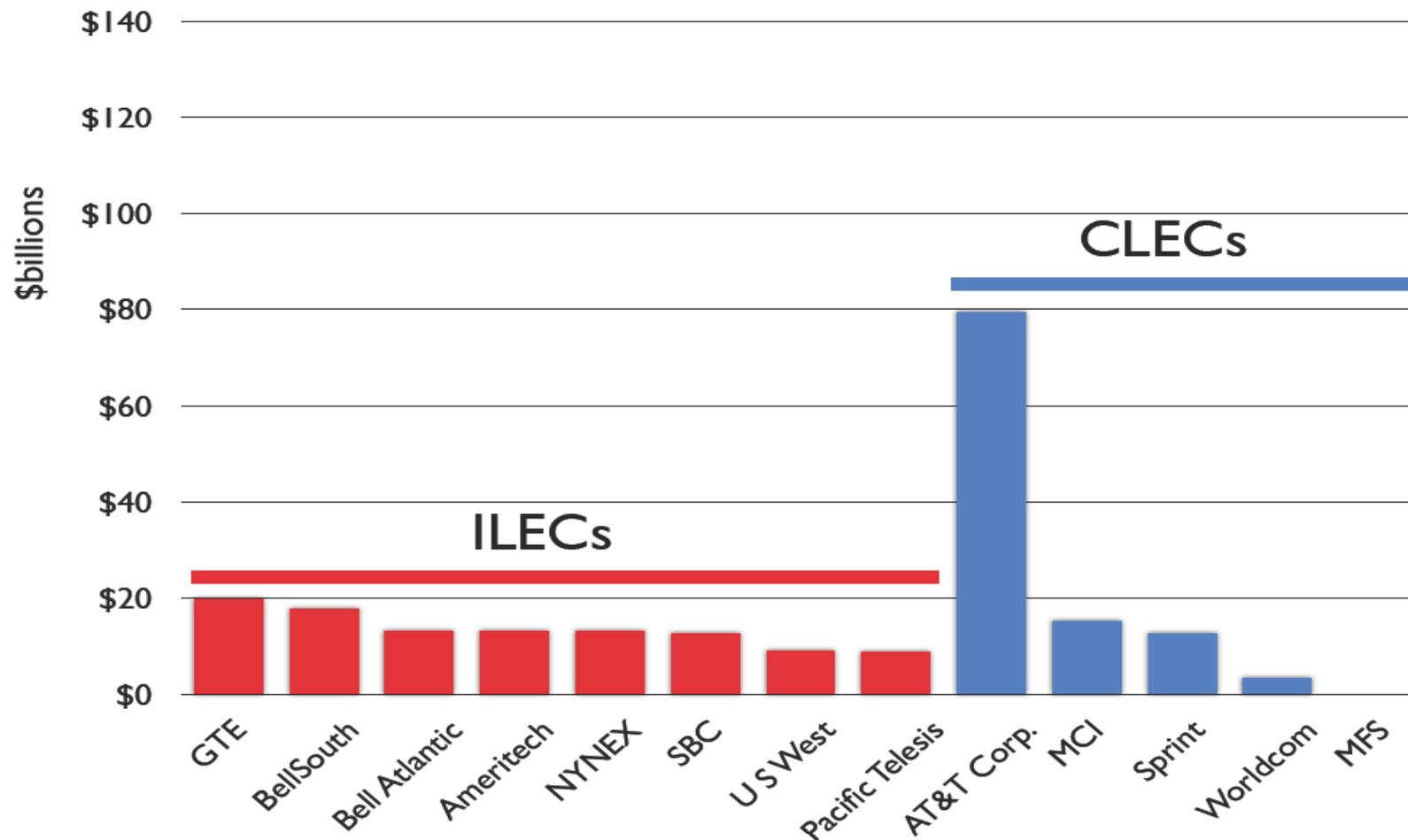
## CAUSE

- Premature deregulation.
- Vertical and horizontal consolidation without adequate constraints.
- Lower antitrust protections in USA.

## EFFECTS

- Greater concentration of network services market power in hands of Bell access monopolies.
- Higher prices.
- Less innovation.

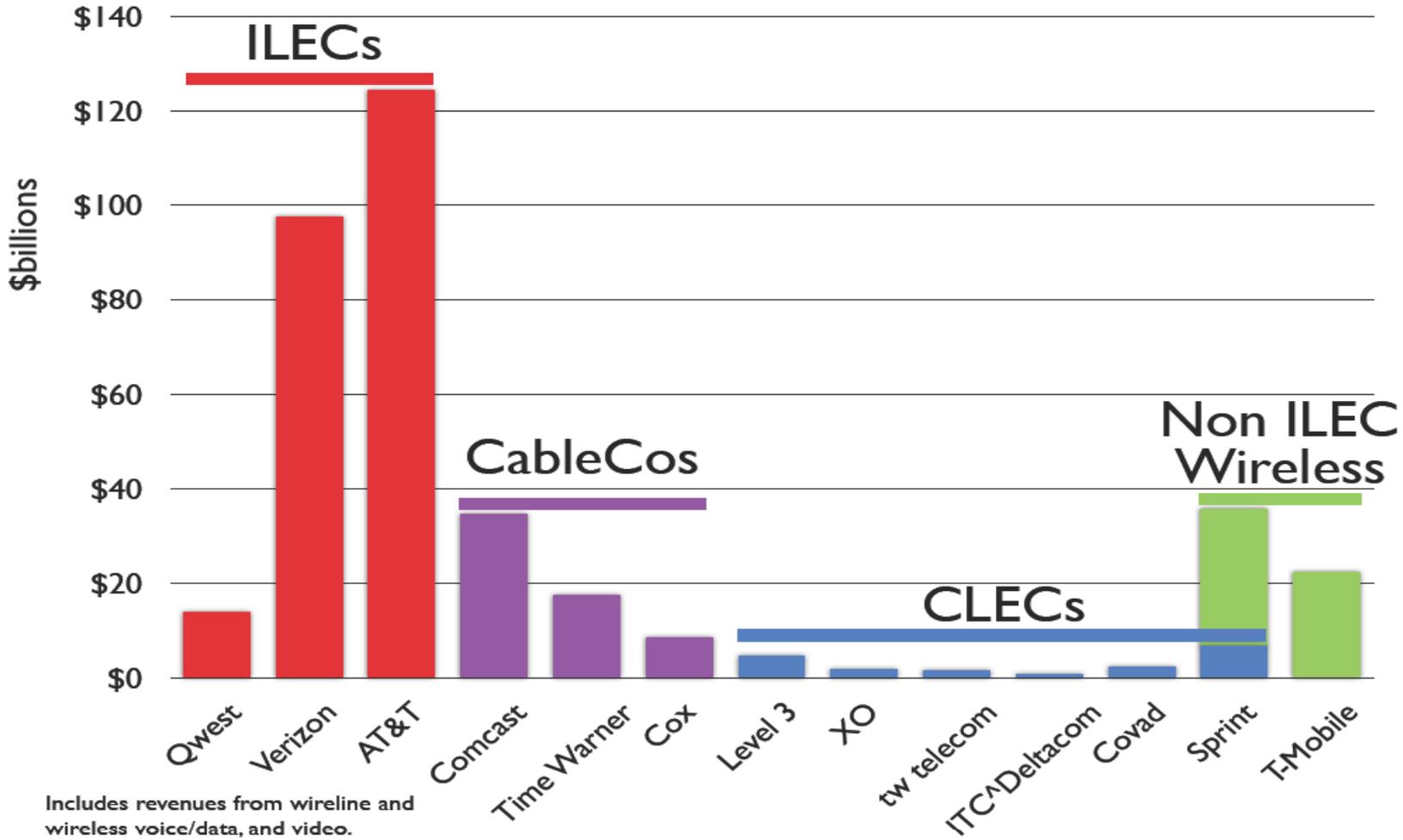
## Concentration of US Telecom industry Revenues - 1995



Source: Lee Selwyn, ETI, NASUCA 2009 Meeting



### Concentration of US Total Company Telecom industry Revenues - 2008



Source: Lee Selwyn, ETI, NASUCA 2009 Meeting



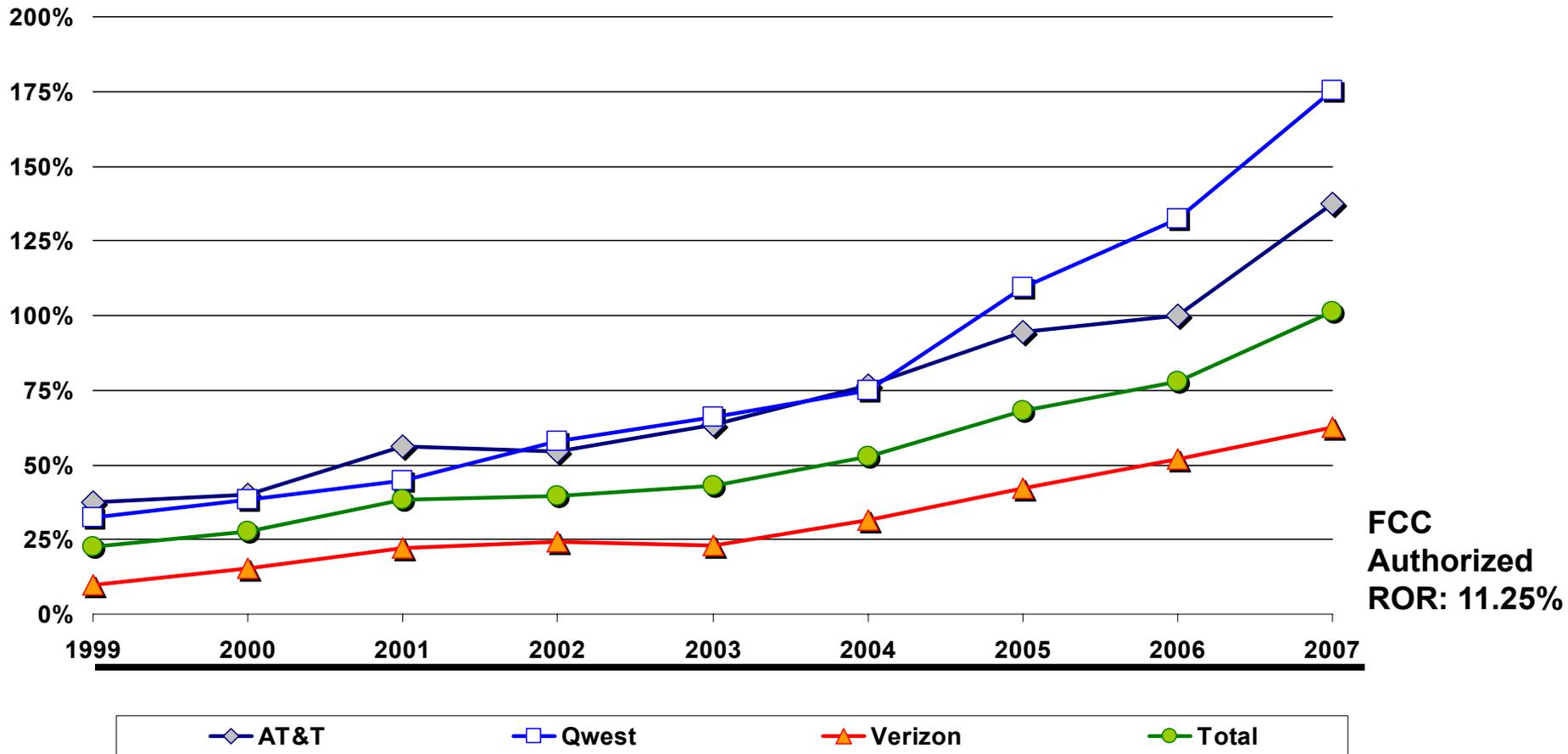
# Bells' return on access products are much higher than UK incumbent returns

- AT&T's 2007 after-tax rate of return on special access = 137%.
- Verizon's 2007 after-tax rate of return on special access = 63%.
- BT's rate of return on PPCs, the UK equivalent of special access, is 11.5% and its allowed return on wholesale Ethernet is 10%.\*\*

\*\* (Ofcom determined that BT's return on wholesale Ethernet is at 35% and excessive therefore it is imposing a price cap that will bring BT's return on Ethernet down to 10%).

# RBOC profits soar under deregulation

## Escalating RBOC Special Access RORs

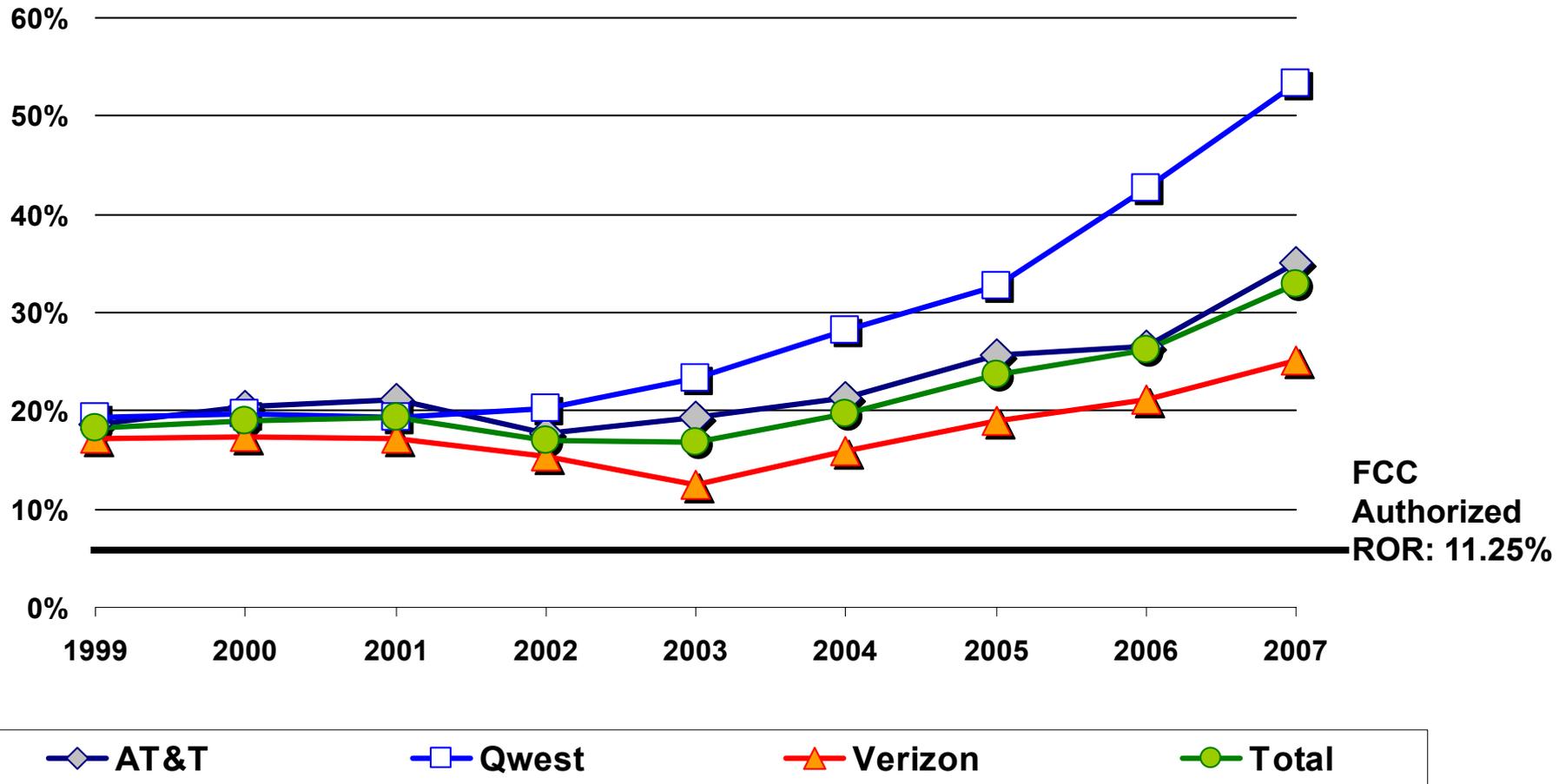


Source: Lee Selwyn, ETI, NASUCA 2009 Meeting



# RBOC profits soar under deregulation

## Escalating RBOC Interstate RORs



Source: Lee Selwyn, ETI, NASUCA 2009 Meeting



# USA Ethernet access services – less innovation and higher prices

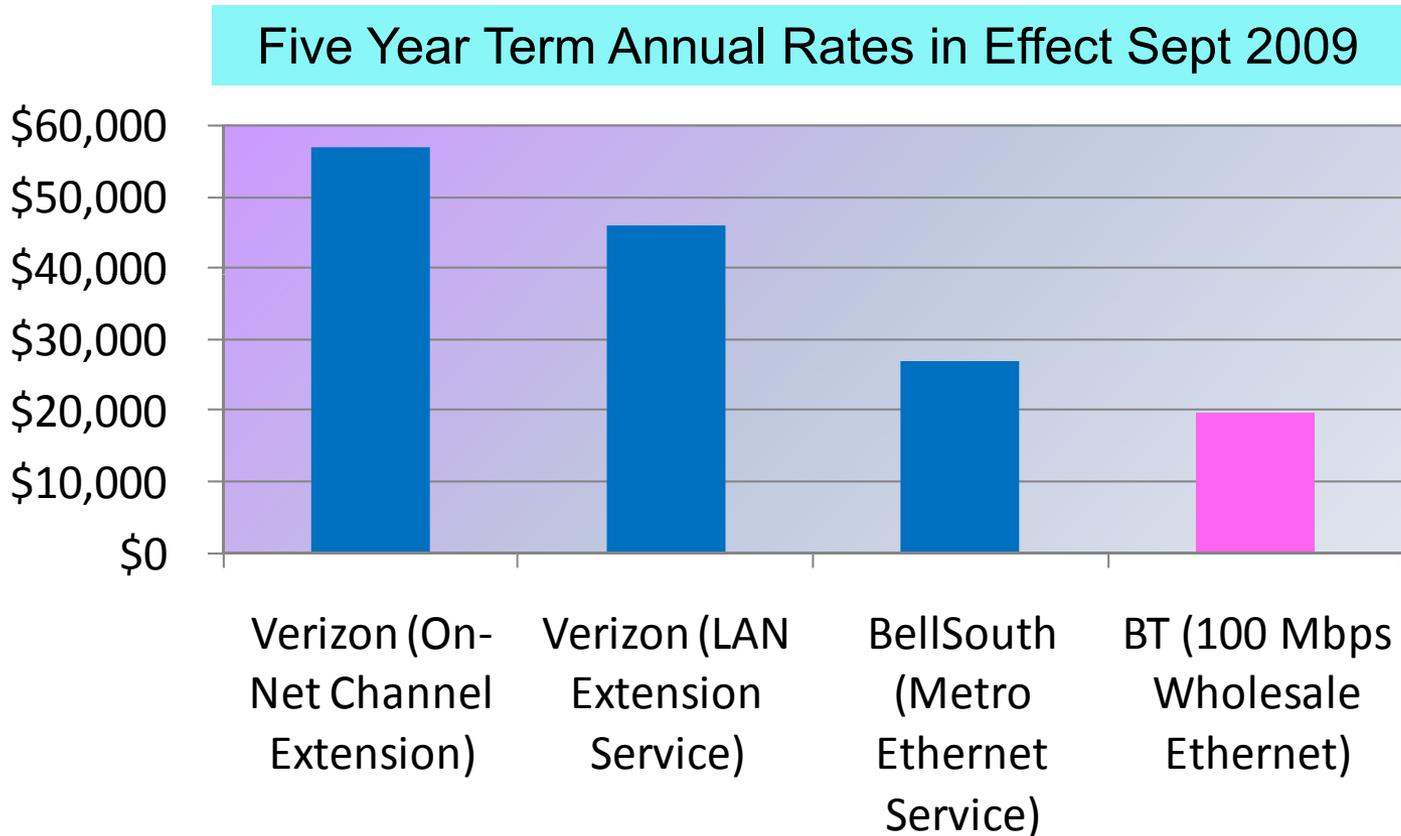
## UK

- BT has 614 Ethernet nodes rolled out across the UK.
- BT's Ethernet access is within 5km of **90%** of UK business premises.

## USA

- COVAD, XO, TWT and others – seeking to deploy Ethernet more widely and to more niche markets in the USA. But they are stymied by high input costs and are squeezed.
- Ethernet access availability to US business premises is much lower.
- Bell Ethernet prices are higher than BT's UK wholesale Ethernet prices (see example on following page).

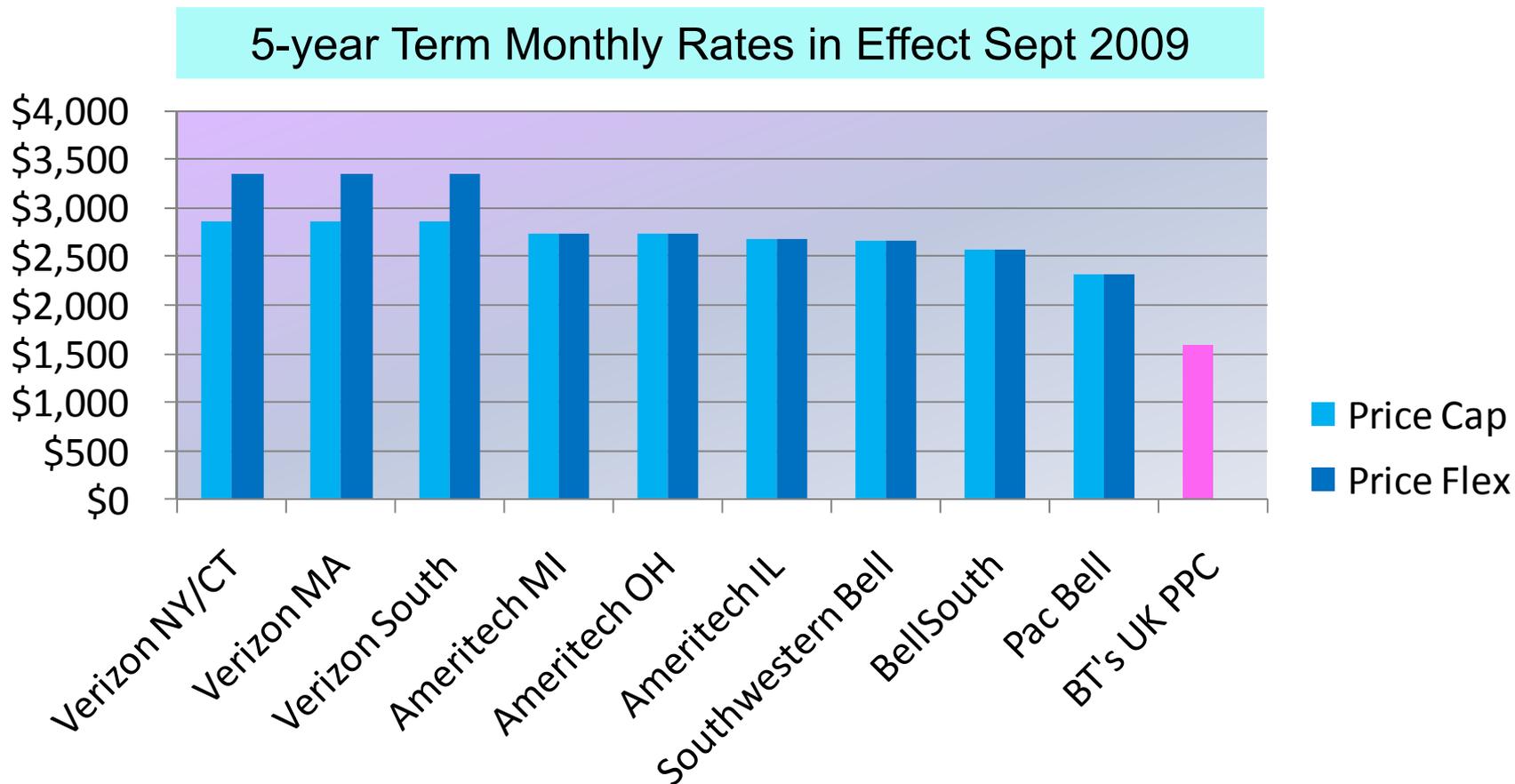
# Comparison of US 100 Mbps Ethernet access rates to BT's equivalent offering



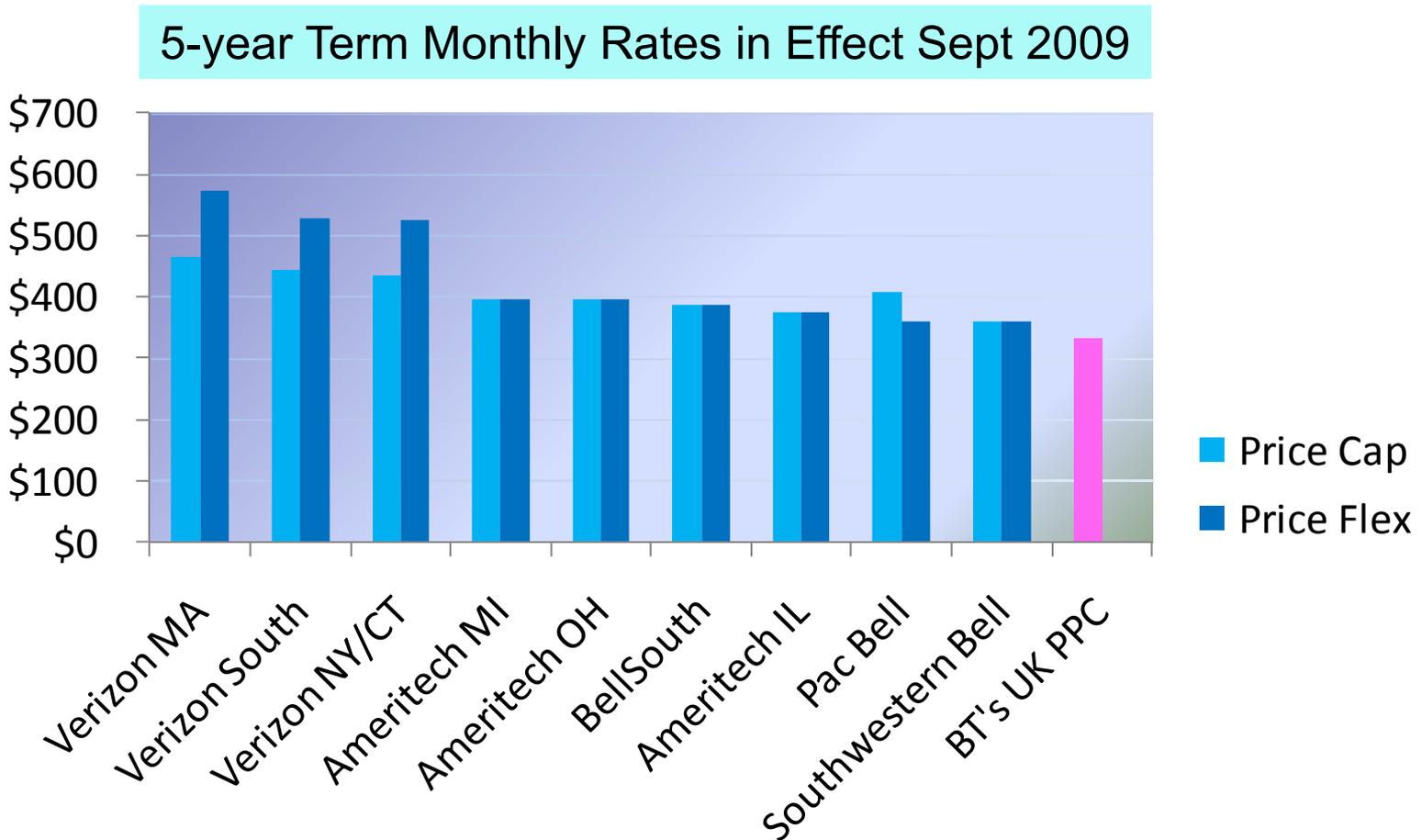
See Note 1, Annex A



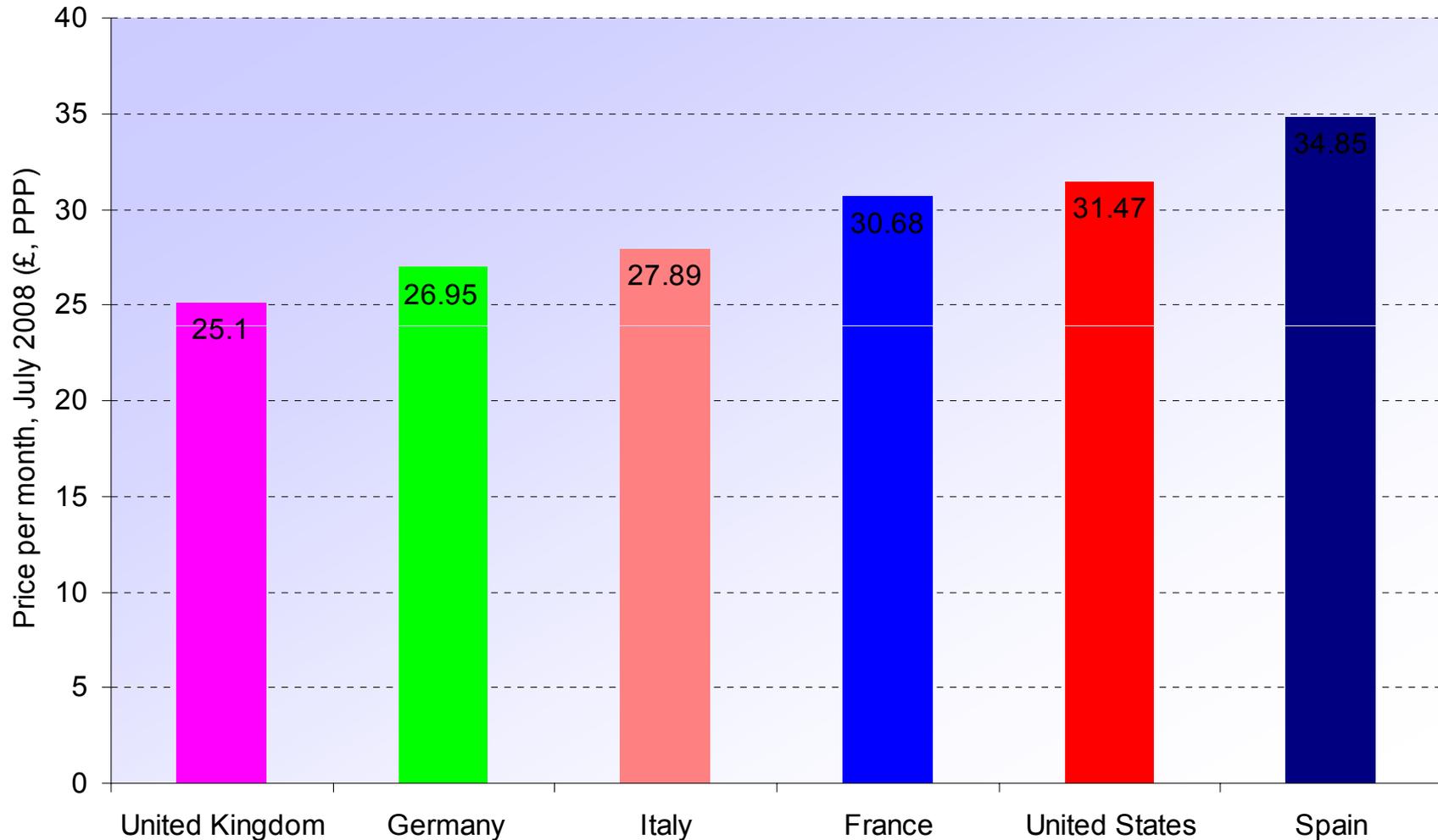
# US DS3 (45 Mbps) special access rates are generally higher than BT's UK equivalent 45 Mbps PPC access



US DS1 (1.5 Mbps) special access rates are generally higher than BT's equivalent 2 Mbps PPC access



# UK has lowest landline prices amongst major countries



International Communications Market, November 2008, Ofcom; weighted average of best-value tariff from each of the three largest operators by market share in each country, for 600 outbound minutes; July 2008; PPP adjusted. Based on a family of two parents and two children, who are cost conscious and favour using the fixed-line phone whenever possible, which gets fairly heavy use. Includes line rental and cost of purchasing enhanced tariffs that offer reduced prices.

# IMPACT ON HEALTH IT

# USA Health IT – network services innovation lacking?

- USA
  - At the FCC’s September meeting, the National Broadband Plan team reported that amongst the key issues to implementing a national health IT program are connectivity gaps, including
    - “Current state of connectivity for each segment of the healthcare space.”
    - “Needs that will not be satisfied by commercial carriers”

# Addressing access bottlenecks results in risk-taking and innovation

- UK Health IT
  - In the 5<sup>th</sup> year of implementing a 10-year national health IT program.
  - Multiple suppliers involved including BT, a commercial carrier.
  - BT provides the national broadband health IT network in England and Scotland called N3.
    - One of Europe's largest VPNs with 40,000 connections connecting hospitals, General Practitioners (GPs) and other healthcare professionals.
    - N3 network is IP Voice-enabled.
    - Connections use a variety of access technologies including Ethernet, IPStream (100% 2Mbps downstream and 95% over 800 kbps upstream), DSL and ISDN.
    - 100% of GPs in England are connected.
    - GPs' connections - migration to IPStream commenced in 2008.
    - GPs can now transfer patient records in a fraction of the time.
    - Ethernet services are available to most N3 customers in London.

# Addressing access bottlenecks results in risk-taking and innovation

- UK Health IT
  - BT built and manages SPINE, a secure database of key patient information.
    - Allows for electronic prescriptions, as well as choosing and booking health services.
  - BT is the local service provider providing systems integration and professional IT services to the National Health Service for London and the South of England.
    - Provides Picture Archiving and Communications Systems (PACS), which enable images such as X-rays and scans to be stored electronically and viewed → leading to faster analysis and fewer lost and repeat scans.
    - London – only capital city in the G8 to have all its medical images digitized.

# Addressing access bottlenecks results in risk-taking and innovation

- UK Health IT – Examples of Benefits
  - Healthcare professionals are already switching from paper to electronic records improving patient care.
  - Angiograms – moving images of beating hearts are being sent in seconds between London hospitals and doctors in Kent leading to faster diagnoses.
  - Yorkshire Air Ambulance response time reduced to less than three minutes.
  - 1500 patient records are being electronically transferred instantly and securely every day.
  - Bed management function improved – time spent searching for beds has dropped from an average of 30 minutes to less than one minute in many hospitals.
  - BT's Mobile Health Worker solution – enables community nurses and other health professionals to access patient information remotely via secure laptop.
    - Productivity and cost savings estimated at GBP 400 per week per clinician.

# IMPACT ON SMALL BUSINESSES (SMEs)

# Intense intra/intermodal broadband competition enabled by effective access regulation

- USA
  - According to the FCC's National Broadband team, "many small businesses don't have connectivity sufficient for new opportunities, like cloud computing."
- UK
  - 2 Mbps broadband service is available to over 89% of business premises including small business premises.
  - Dozens of national and sub-national providers compete in a landmass the size of Oregon to provide broadband and related services to SMEs.
    - The largest national providers include BT, Virgin, C&W, Orange, Tiscali, CPW, BSkyB, Telefonica O2 and Vodafone.
    - UK Mobile providers and cable operators extend their geographic and product reach by purchasing on a regulated wholesale basis and reselling BT's DSL, Ethernet and private line products.

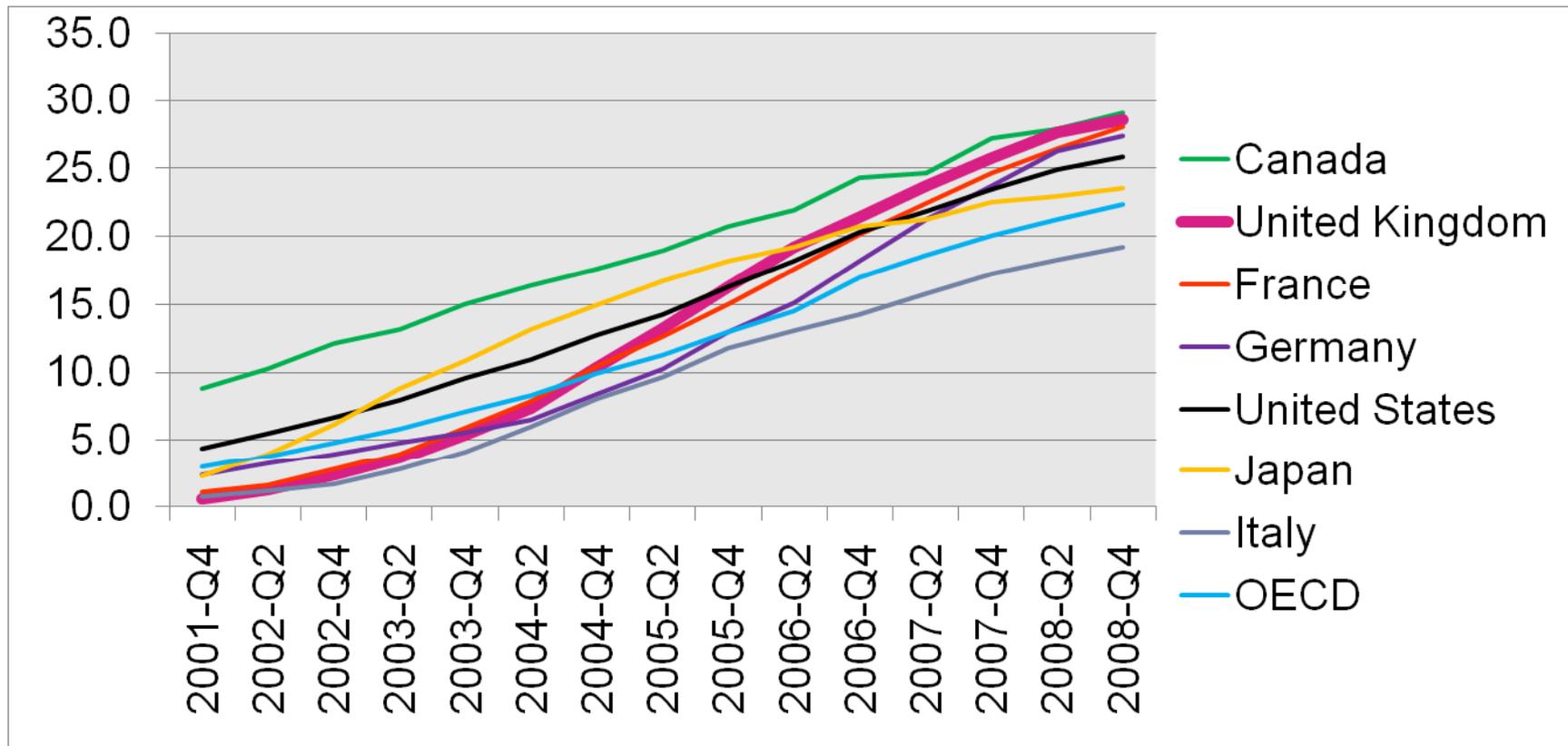
# Intense intra/intermodal broadband competition enabled by effective access regulation

- UK
  - BT and others offer SMEs 20-24 Mbps broadband services at affordable prices.
  - In addition to broadband (mobile and fixed), voice and PDA solutions, providers are offering SMEs innovative services such as Ethernet, SaaS, cloud computing, videoconferencing, unified communications, PC/Netbook sales, IT support, data and webhosting and business applications such as accountancy tools, tools to track and record e-mail campaigns and employee expense management tools.

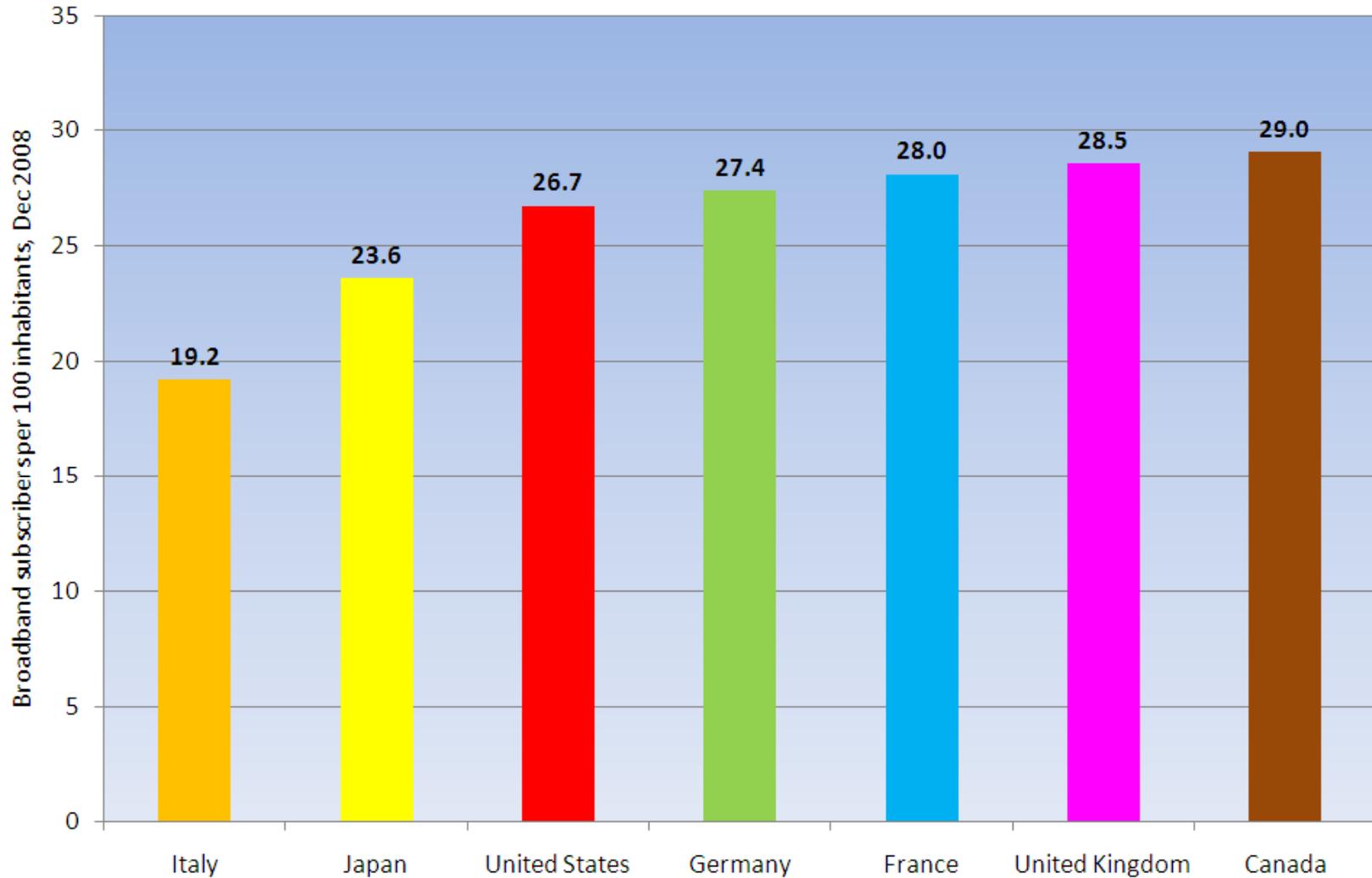
# IMPACT ON BROADBAND PRICES AND UPTAKE

# Effective regulation of access bottlenecks has driven accelerated broadband uptake in the UK

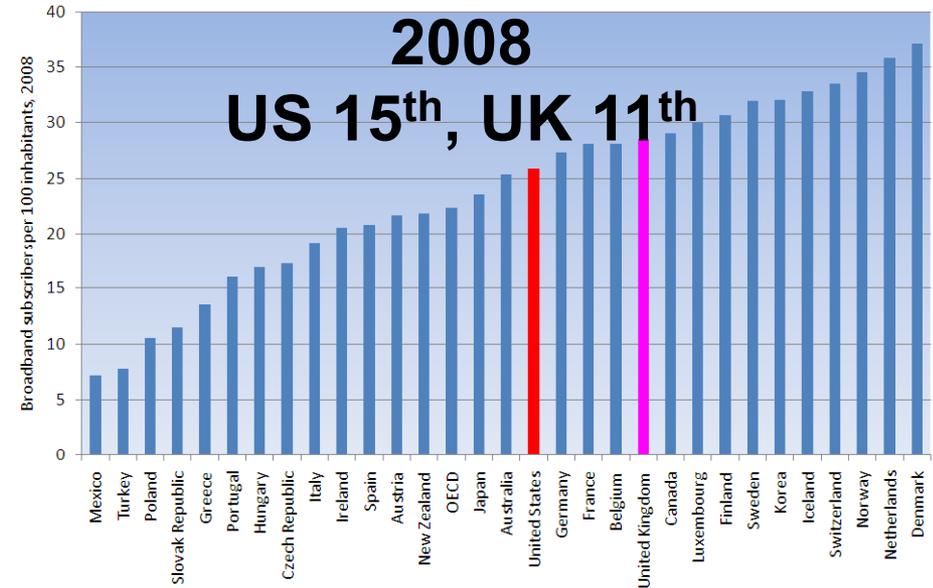
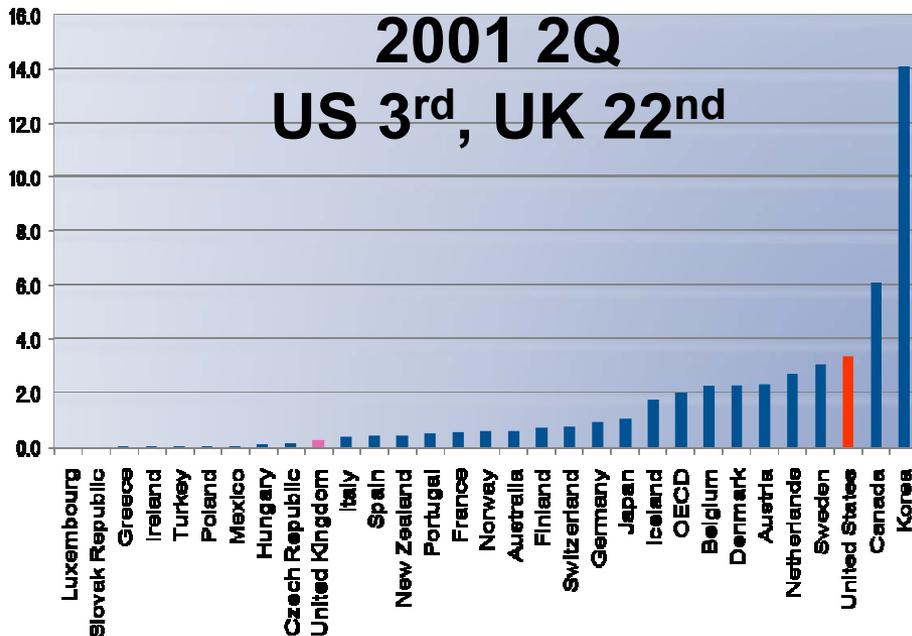
- Steeper rate of broadband penetration following implementation of the EC's regulatory framework and functional separation of BT.
- Propelled the UK from a laggard position in broadband penetration amongst the G7 to one of leadership second only to Canada.



# Broadband penetration in major economies



# Improved UK broadband performance enabled by effective regulation of access bottlenecks

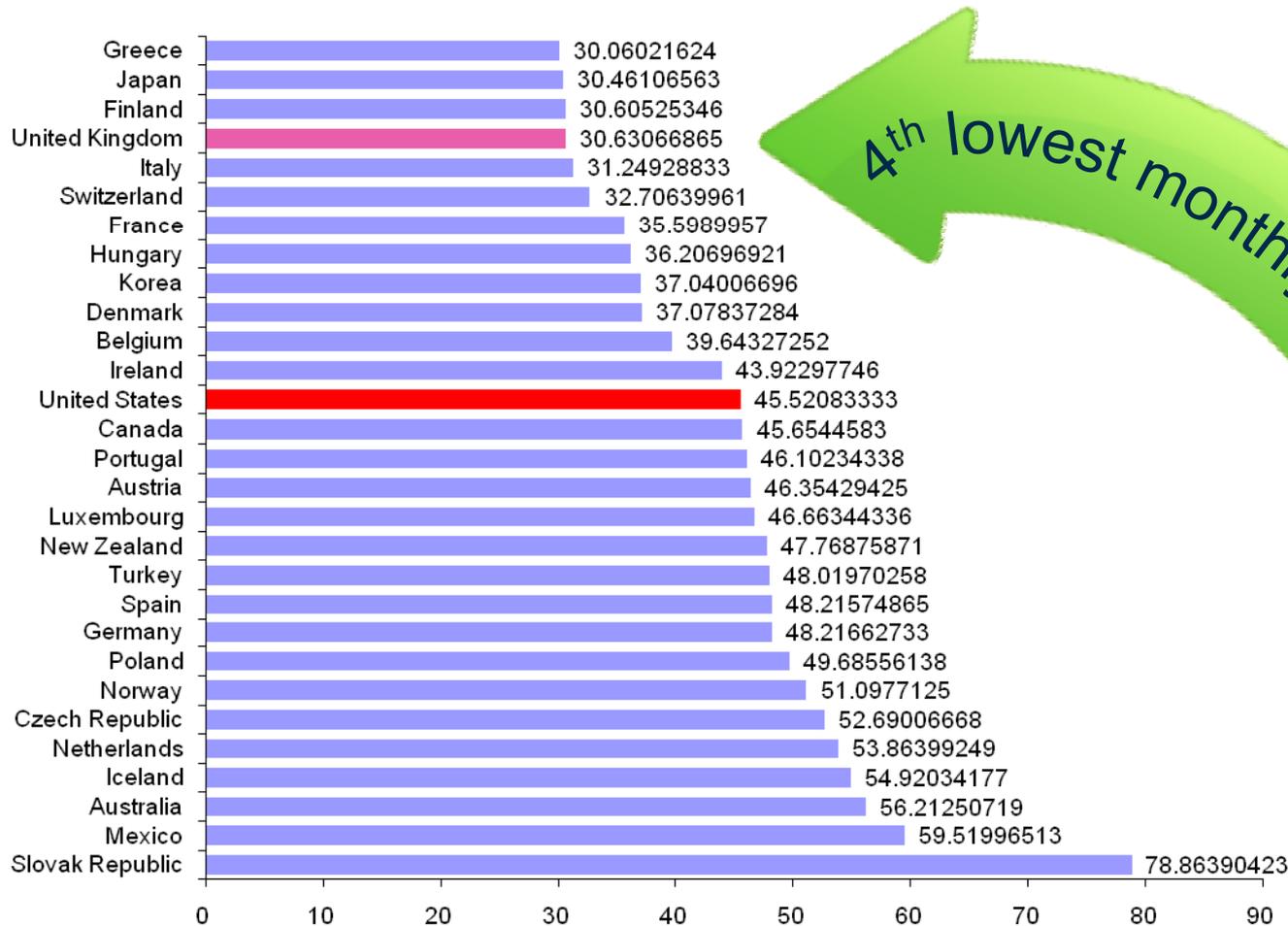


UK is 11<sup>th</sup> in OECD ranking today whereas it was in 22<sup>nd</sup> place in 2001

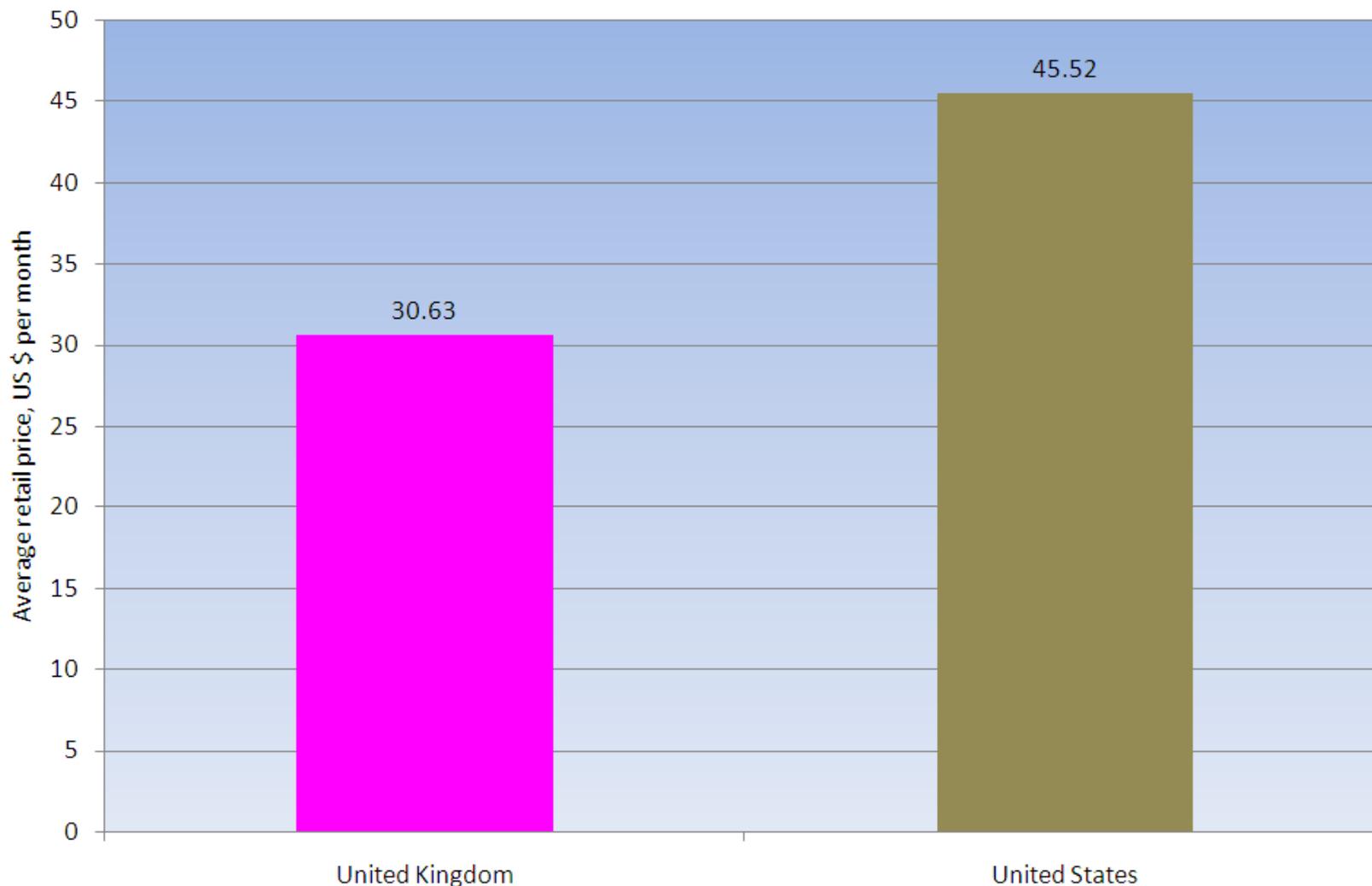
 = UK  
 = US

# Intense intra/intermodal competition has lowered prices for broadband subscribers

Broadband average monthly subscription price, Oct. 2008, USD PPP



## Average retail broadband subscription price per month (US \$ per month, Oct 2008)



## UK: Intense intra/intermodal broadband competition enabled by effective access regulation

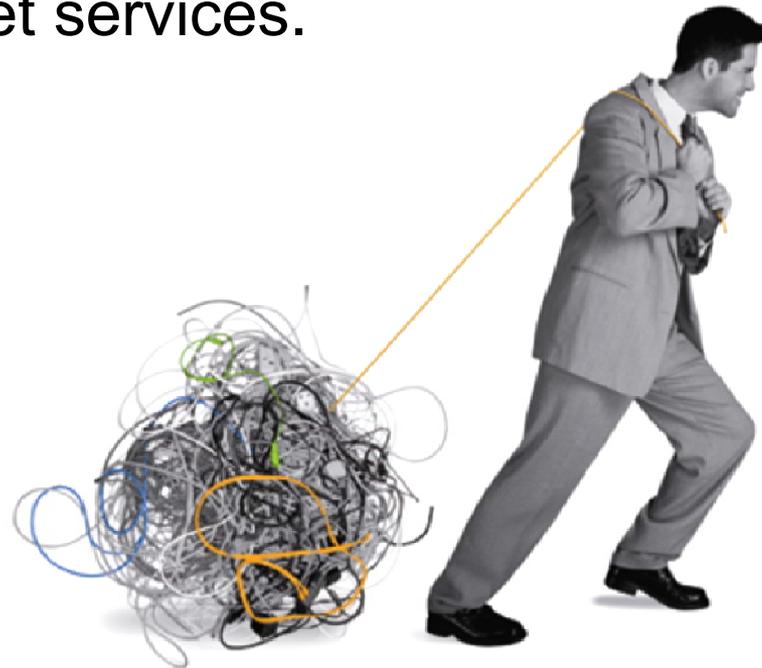
- Over 700 national and regional ISPs compete to serve a population 1/5<sup>th</sup> the size of the US, and occupying a landmass the size of Oregon.
- 99% of UK exchanges are enabled with ADSL Max.
  - Up to 8 Mbps available to UK homes as well as small, medium, and large businesses.
- BT offering ADSL2+ to reach 55% of UK homes by 2010 providing up to 20 Mbps downstream.
- BT to spend £1.5 billion to extend FTTC and FTTH to 10 million UK homes by 2012, approximately 40% of UK homes.

Fair regulation does not deter network investment

## Conclusion

Proper regulation of network chokepoints stimulates greater innovation, results in lower prices and accelerates broadband uptake.

The FCC must regulate access bottlenecks including special access and Ethernet services.



# ANNEX A – Note 1

Verizon's and BellSouth's Ethernet rates are computed for a five-year term point-to-point circuit that is ten miles long and has two connections. Verizon's rates are derived from its tariff FCC No. 1. Secs 7.5.23 and 7.5.25 while BellSouth's rate is derived from its Interstate Access Guidebook at Sec. 7.5.22.

BT's Wholesale Ethernet access rate (WES/WEES 100) is available at <http://www.openreach.co.uk/orpg/pricing/loadProductPriceDetails.do?data=kM1u9yq1NPJ1yTuBFDTfUb%2FuVhXjMR5hQz3DdrCHJqBVrWsgMC%2F4dy9qJJFTkna2>. BT's UK rate was converted to USD using the OECD's 2009 Purchasing Power Parities rate of \$1.00/£0.654. The OECD's PPP rates are available at [http://stats.oecd.org/Index.aspx?datasetcode=SNA\\_TABLE4](http://stats.oecd.org/Index.aspx?datasetcode=SNA_TABLE4).

Both nonrecurring and recurring charges were computed for Verizon's, BellSouth's and BT's 100 Mbps Ethernet services and divided by the relevant denominator to produce annual charges.

## ANNEX A – Note 2

Verizon's and AT&T's special access rates are derived from their applicable FCC interstate access tariffs. Rates are Zone 1, five-year term rates and are computed for a hypothetical circuit consisting of ten miles of interoffice and two channel terminations at either end of less than a mile each. Rates include a 12.9% USF charge.

BT's PPC rates are available at [www.btwholesale.com](http://www.btwholesale.com). They are likewise computed for a hypothetical circuit consisting of a main link ten miles long (fixed and mileage charges for ten miles), a local customer end of less than a mile (fixed and mileage charge for less than one mile) and a handover charge between the incumbent BT and the competitive provider. BT's UK rates contain an implicit universal service subsidy. Annual rates plus point of handover charges were computed for five years and then divided by 60 to derive an equivalent monthly five-year term rate. BT's rates are geographically neutral – *i.e.*, BT's rates are the same regardless of geography. Hence the price comparison to AT&T's and Verizon's Zone 1 rates are more favorable to these Bell companies than a Zone 3 or Zone 5 rate comparison would be.

Nonrecurring charges were not included in the US and UK pricing calculations because a like-for-like comparison was not possible. BT's UK rate was converted to USD using the OECD's 2009 Purchasing Power Parities rate of \$1.00/£0.654. The OECD's PPP rates are available at [http://stats.oecd.org/Index.aspx?datasetcode=SNA\\_TABLE4](http://stats.oecd.org/Index.aspx?datasetcode=SNA_TABLE4).