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October 15, 2009

Via Electronic Filing

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th 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 14, 2009, Larry Stone (President Group Public and Government Affairs, BT), Sheba Chacko (Head, Americas and Global Operational Regulation), and Jill Cocayne (Vice President of US Government Affairs, BT) met with Blair Levin of the Office of Strategic Planning.

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,

SChacko

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

cc: Blair Levin
Carol Mattey
Tom Koutsky

Impact of Addressing 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 USA or are European companies with significant operations in the USA
  - Six of BT's last 22 acquisitions are of US-based companies
  - In 2008 BT acquired Ribbit, a Silicon Valley-based voice applications company
- BT – also UK incumbent service provider serving consumers, SMEs, government and large enterprises

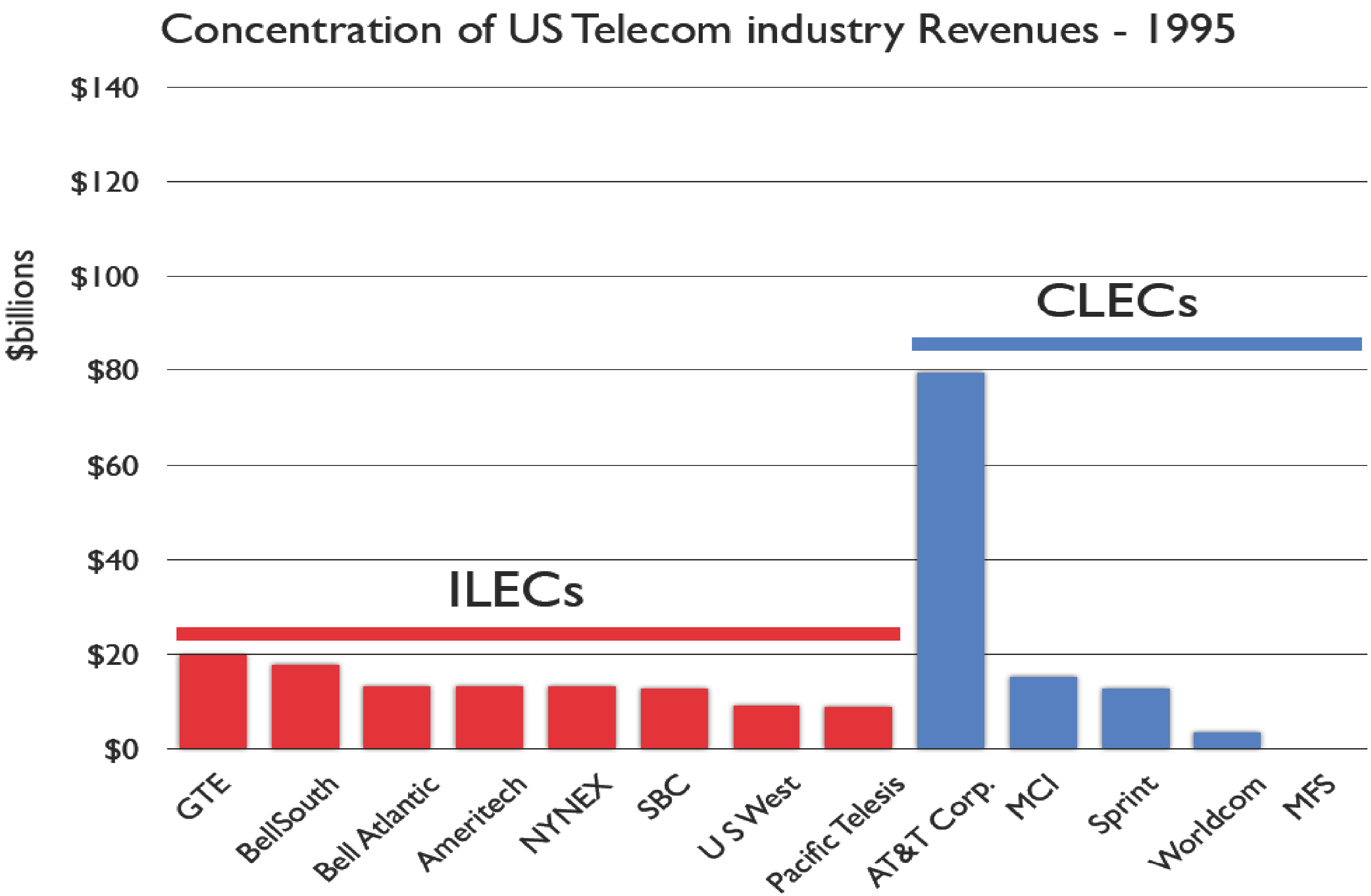
USA infrastructure – unaddressed access bottlenecks are causing higher prices and less innovation

CAUSE

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

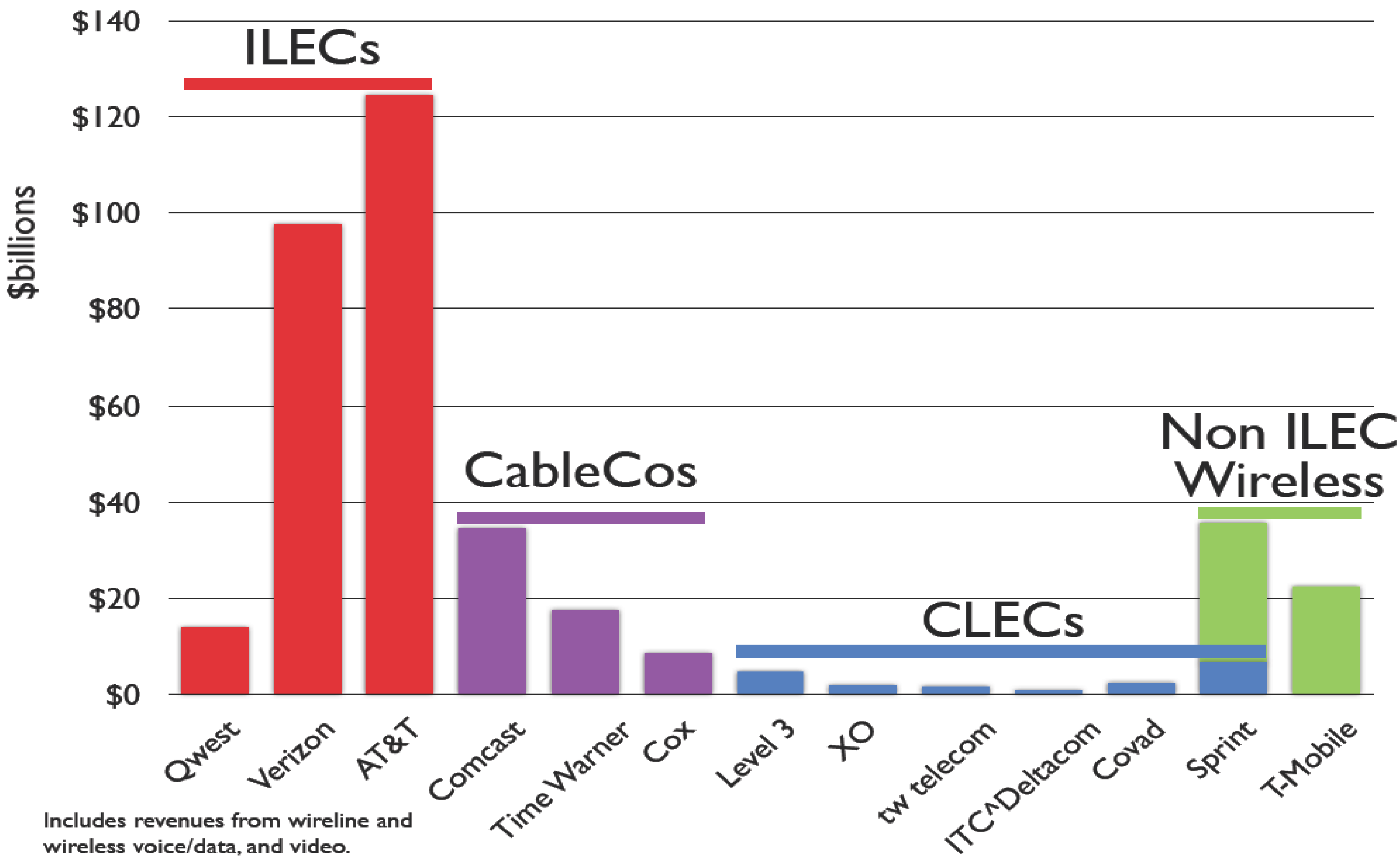
EFFECTS

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



Source: Lee Selwyn, ETI, NASUCA 2009 Meeting

Concentration of US Total Company Telecom industry Revenues - 2008



Includes revenues from wireline and wireless voice/data, and video.

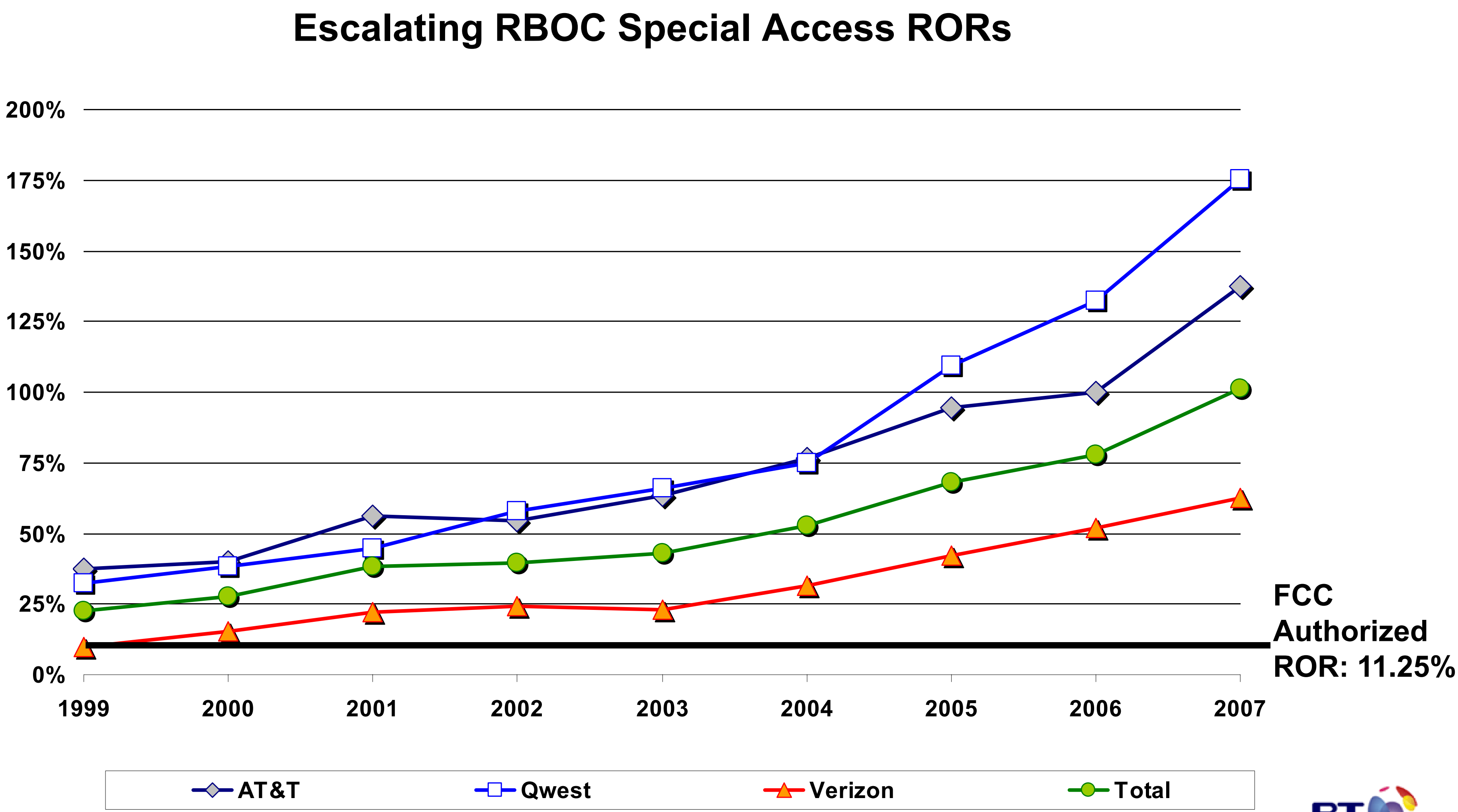
Source: Lee Selwyn, ETI, NASUCA 2009 Meeting

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%.**

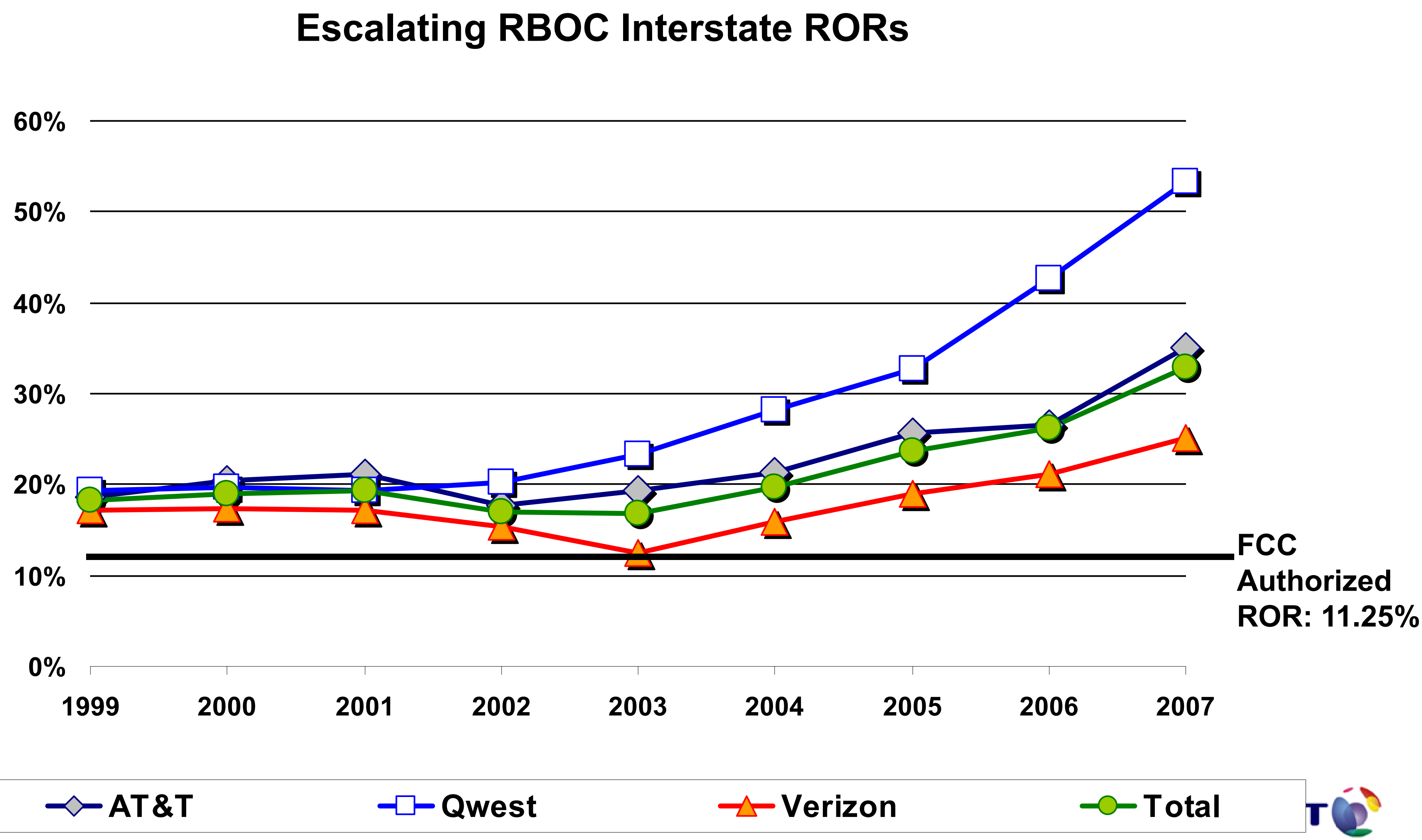
** (Ofcom determined that BT's return on wholesale Ethernet is at 35% and excessive therefore it is imposing a price cap that will bring BT's return on Ethernet down to 10%).

RBOC profits soar under deregulation



Source: Lee Selwyn, ETI, NASUCA 2009 Meeting

RBOC profits soar under deregulation

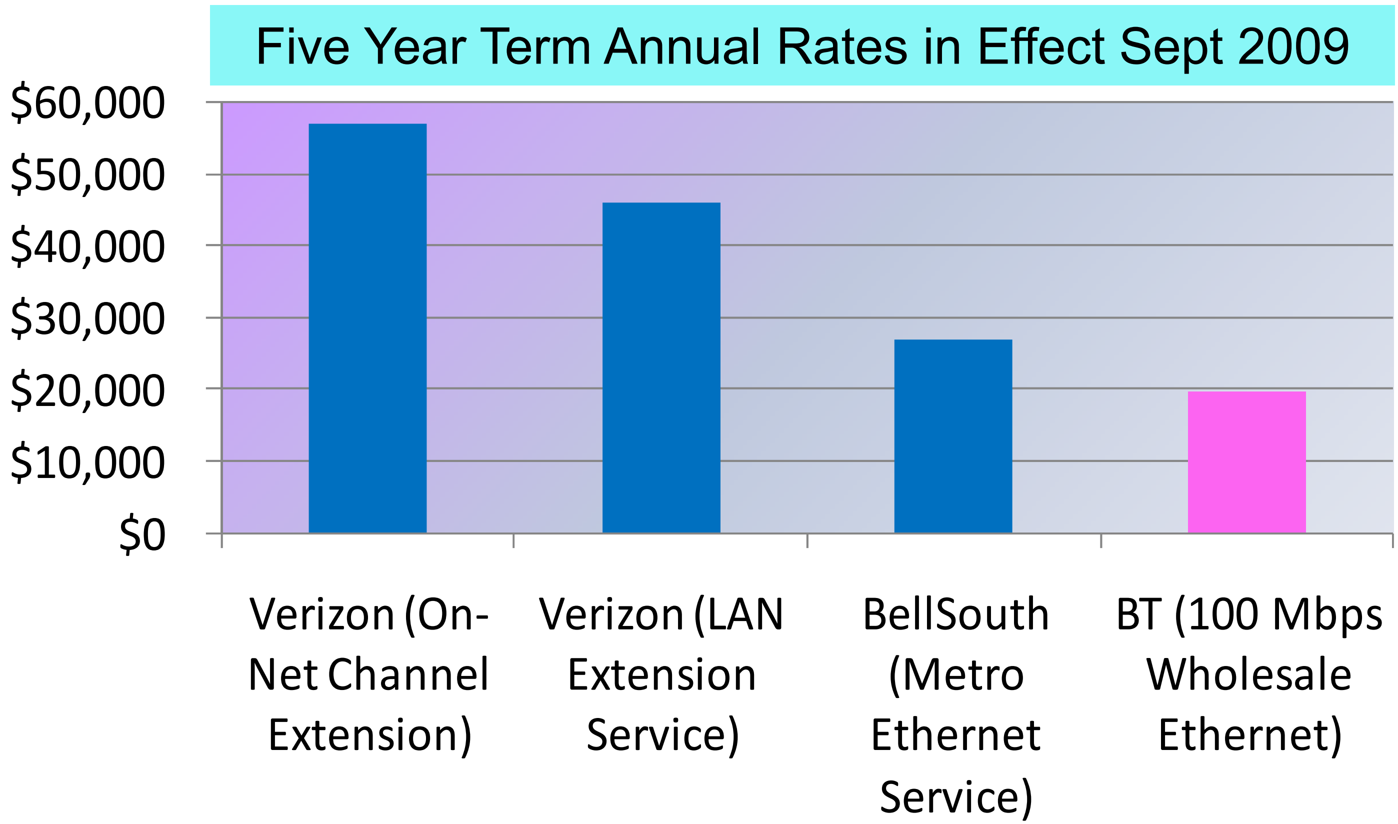


Source: Lee Selwyn, ETI, NASUCA 2009 Meeting

USA Ethernet access services – less innovation and higher prices

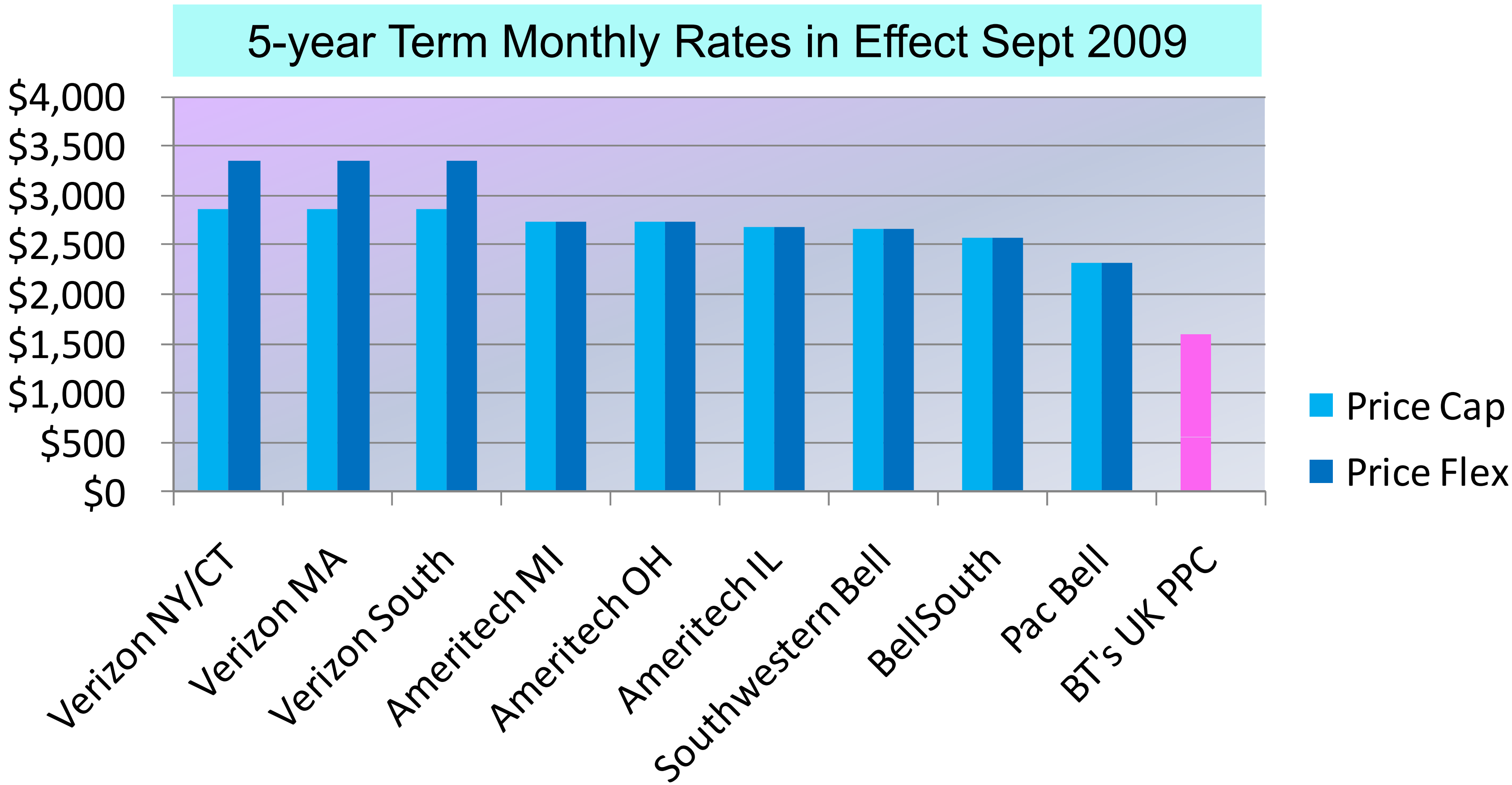
- UK
  - BT has 614 Ethernet nodes rolled out across the UK.
  - BT's Ethernet access is within 5km of **90%** of UK business premises
- USA
- COVAD, XO, TWT and others – seeking to deploy Ethernet more widely and in more niche markets but stymied by high input prices and squeeze
  - Ethernet access availability to US business premises is much lower
- UK -- Wholesale Ethernet access prices in the UK are significantly lower

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



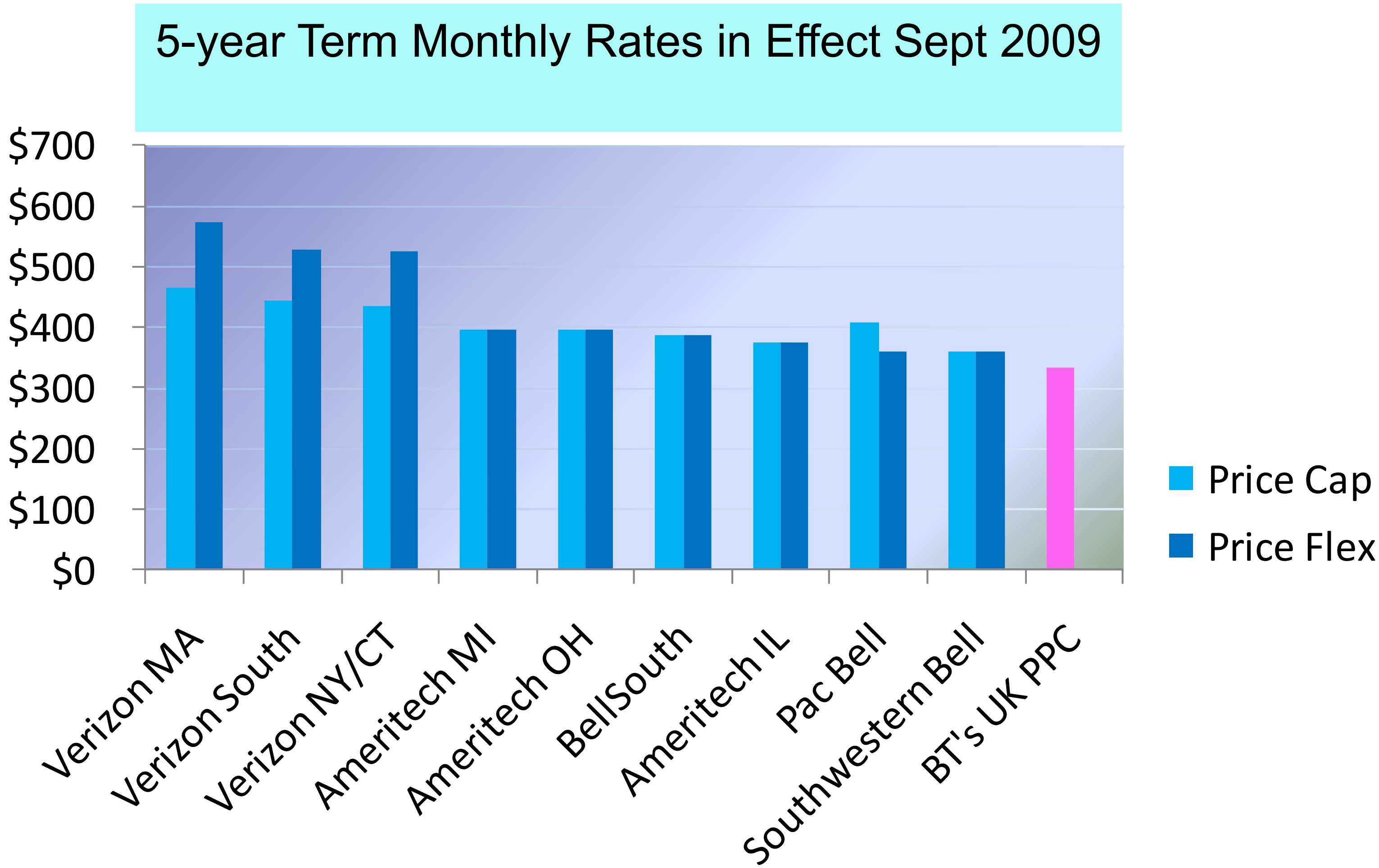
See Note 1, Annex A

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



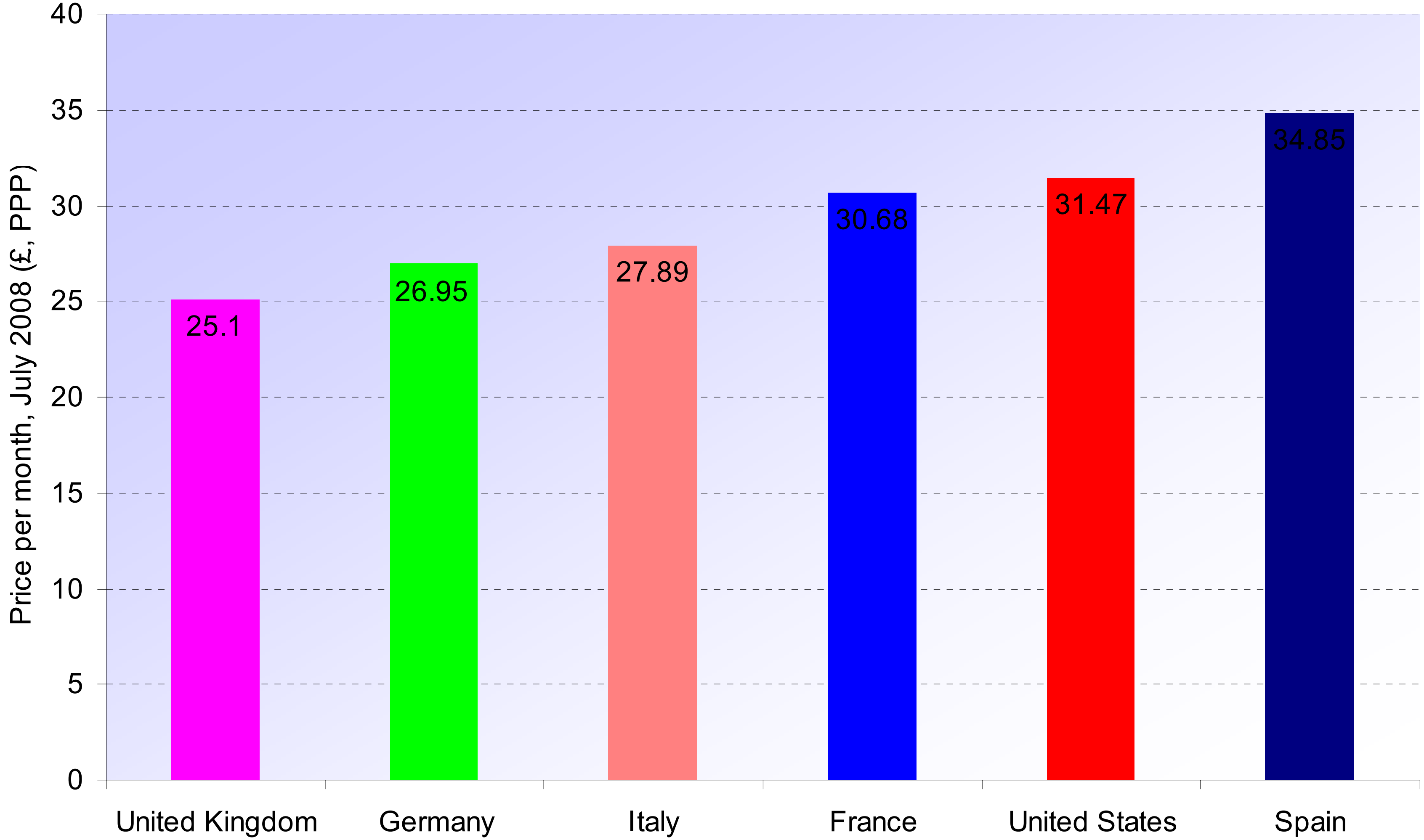
See Note 2, Annex A

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



*See Note 1, Annex A

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:
    - Current state of connectivity for each segment of the healthcare space
    - <u>Needs that will not be satisfied by commercial carriers</u>!

Addressing access bottlenecks results in risk-taking and innovation

- UK Health IT
  - In the 5th year of implementation of 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, 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 digitised

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,
  - 1,500 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 SME market
  - According to the FCC's National Broadband team, "**many small businesses don't have connectivity sufficient for new opportunities, like cloud computing**."

- UK SME market
  - <u>Dozens</u> of national and sub-national providers compete in a landmass the size of Oregon to provide broadband and related services, including cloud computing, to SMEs.
    - The largest national providers include BT, Virgin, C&W, Orange, Tiscali, CPW, BSkyB, Telefonica O2, Vodafone
    - UK Mobile providers, cable operators and intermodal competitors extend their geographic and product reach by purchasing inputs on a regulated wholesale basis and creating DSL, ADSL2+, Ethernet and other services or reselling BT's DSL, Ethernet and other broadband products.

Intense intra/intermodal broadband competition enabled by effective access regulation

- UK SME market
  - More than 90% of SMEs have access to upto 8 Mbps ADSL Max service
  - More than 40% of SMEs have access to upto 20 Mbps ADSL2+ service today. 75% will have access to ADSL2+ by Spring 2011.
    - 79% of UK SME business premises take broadband service
      - 90% take ADSL Max
      - 10% take ADSL2+
    - 90% of UK business premises have access to Ethernet access services
- UK SME broadband service provider offerings extend beyond communications and infrastructure services to hardware and IT, and applications and content. Offering large business solutions to SMEs.
  - E.g. broadband (mobile and fixed), voice and PDA solutions, SaaS, cloud computing, videoconferencing, unified communications, PC/Netbook sales, IT support, data and webhosting, social networking and business applications (such as accountancy tools, tools to track and record e-mail campaigns and employee expense management tools)

The broadband platform leads to new services – for instance the SaaS/Cloud solutions BT offers SMEs..

salesforcecrm Manage. Share. Succeed.
Provided by BT

Salesforce.com

NETSUITE ONE SYSTEM. NO LIMITS.
Provided by BT

NetSuite

SUGARCRM COMMERCIAL OPEN SOURCE
Provided by BT

SugarCRM

Ribbit for Salesforce
Provided by BT

Ribbit for Salesforce

genius.com Genius Pro BT Smart Marketing
Provided by BT

BT Smart Marketing (Genius)

BT eSignature
EchoSign

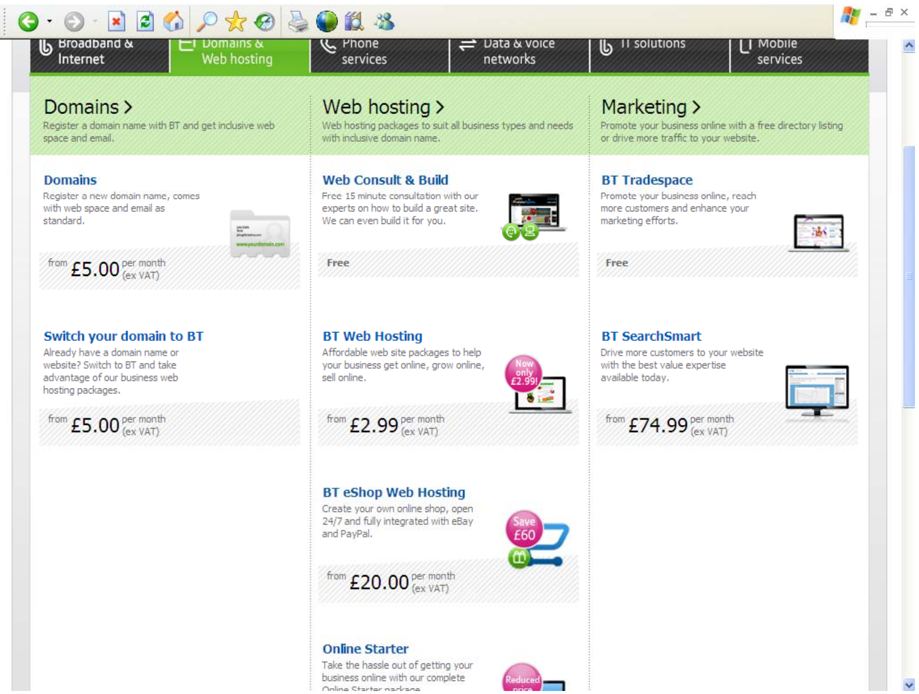
BT eSignature (Echosign)

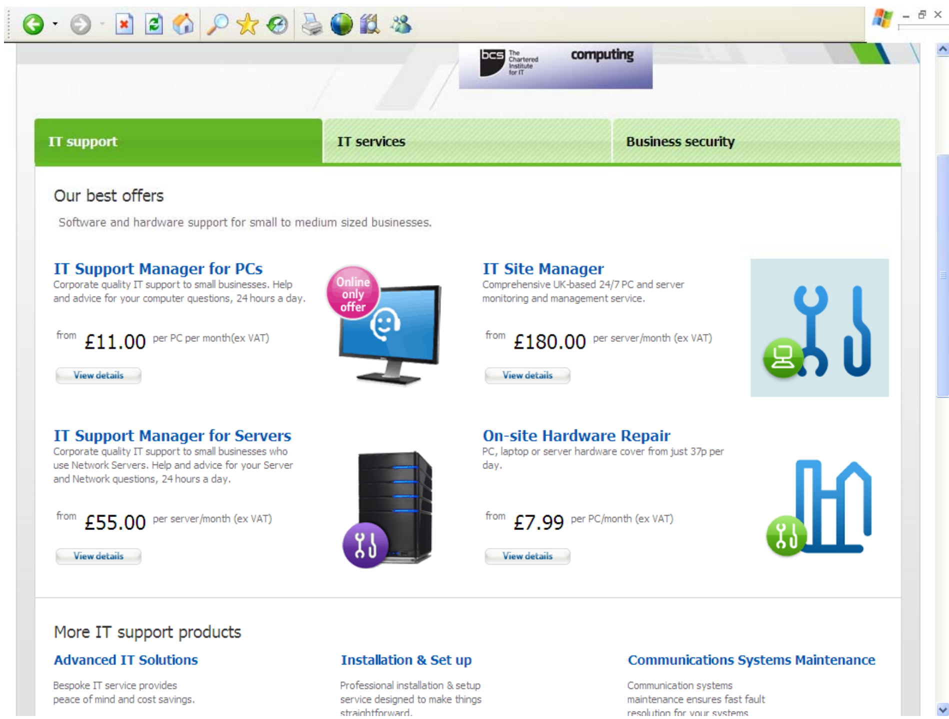
xero
Provided by BT

Xero
NEW TO PORTFOLIO

Access applications wherever you are

BT’s SME related VAS & IT related services….

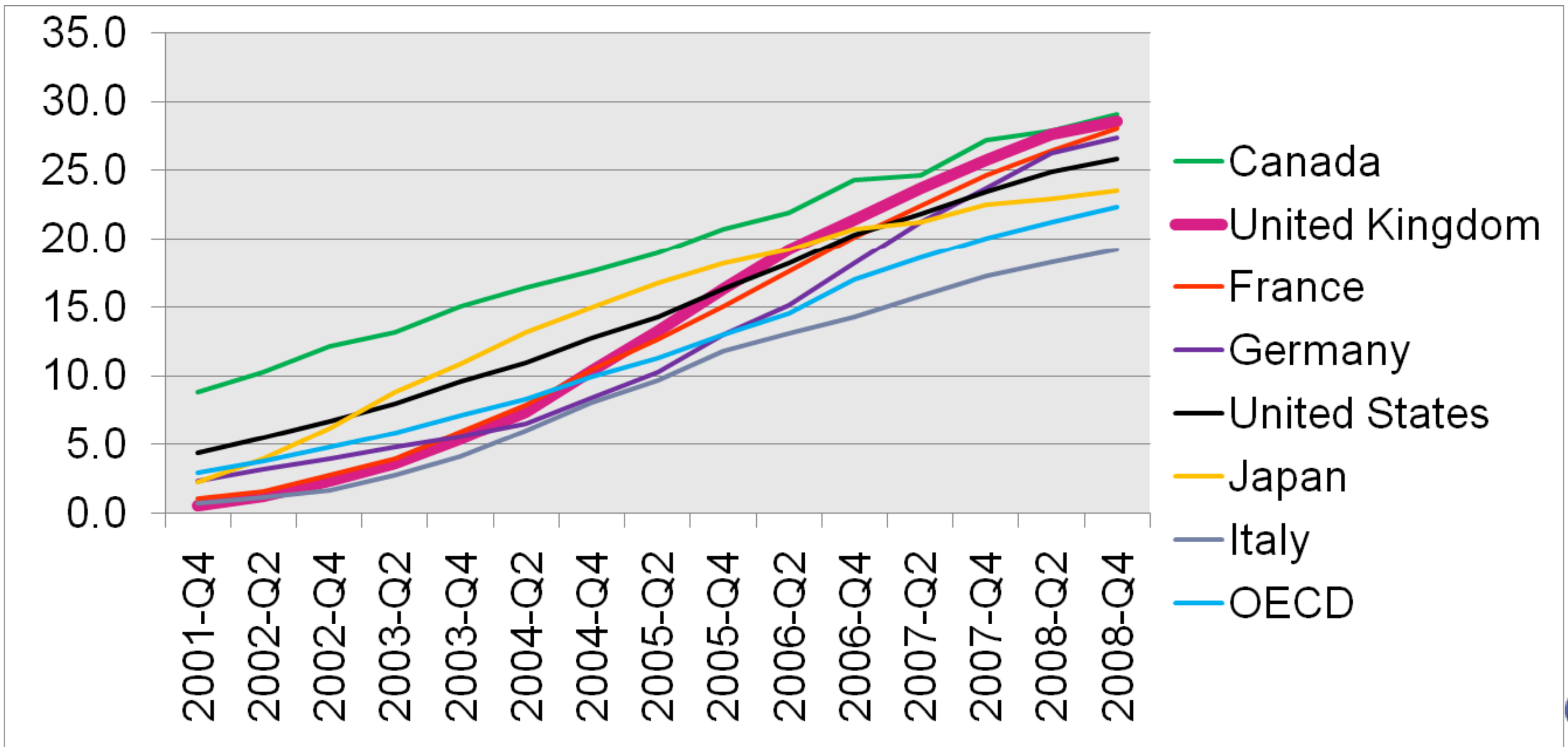




IMPACT ON BROADBAND PRICES AND UPTAKE

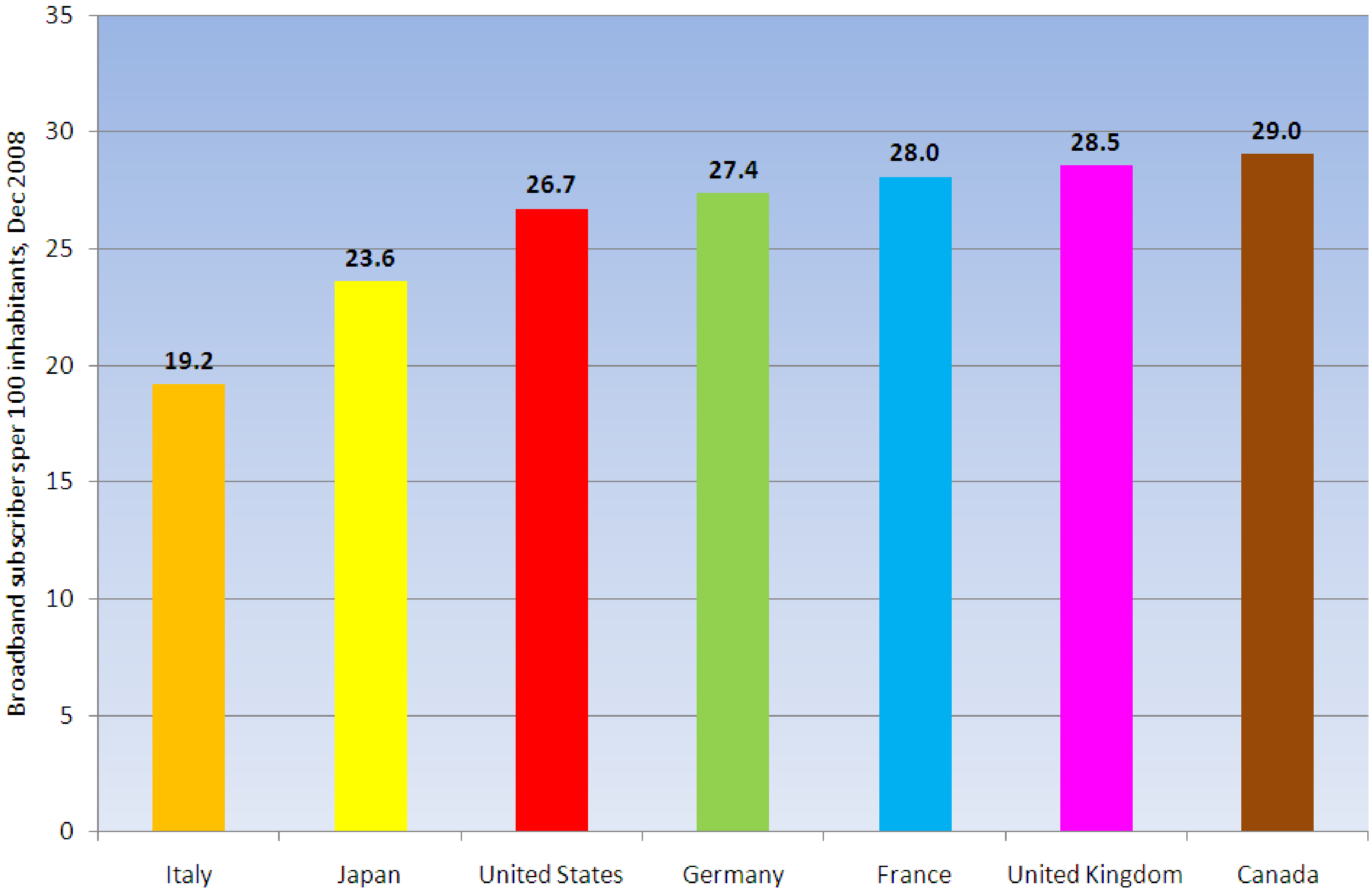
Effective regulation of access bottlenecks has driven accelerated broadband uptake in the UK

- 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



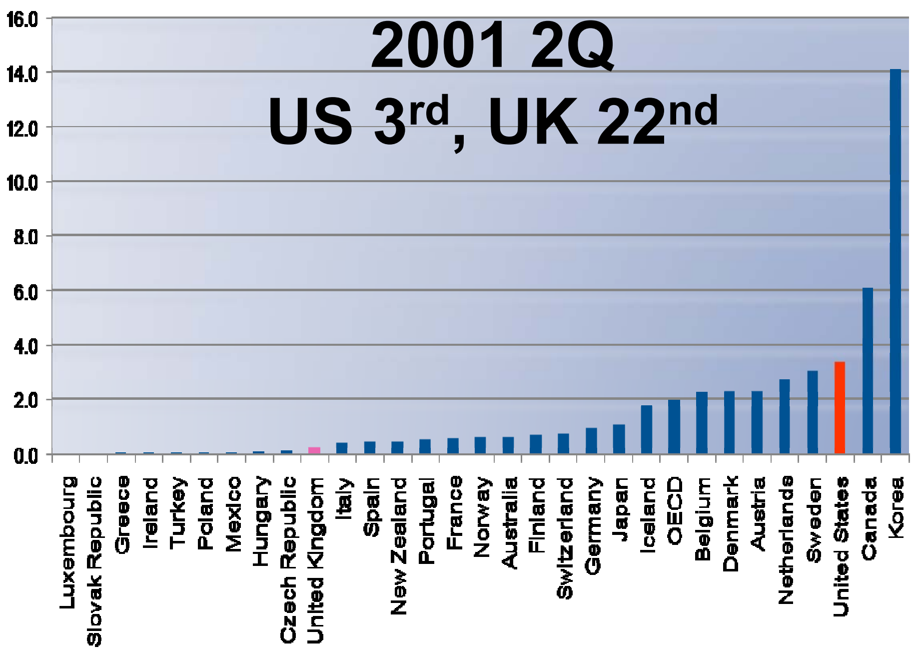
Source: OECD

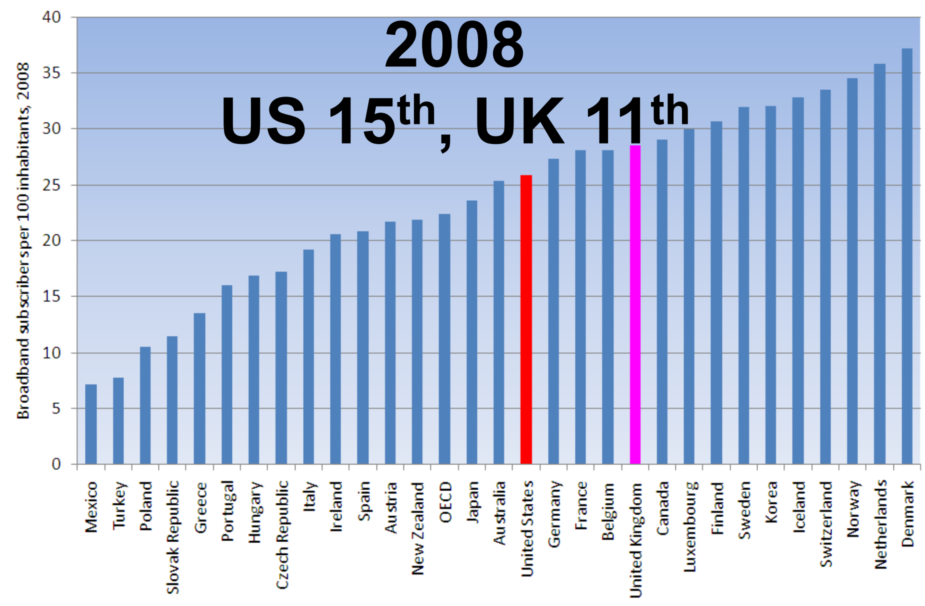
Broadband penetration in major economies



OECD Broadband Portal, 2009

Improved UK broadband performance enabled by effective regulation of access bottlenecks





UK is 11th in OECD ranking today whereas it was in 22nd place in 2001

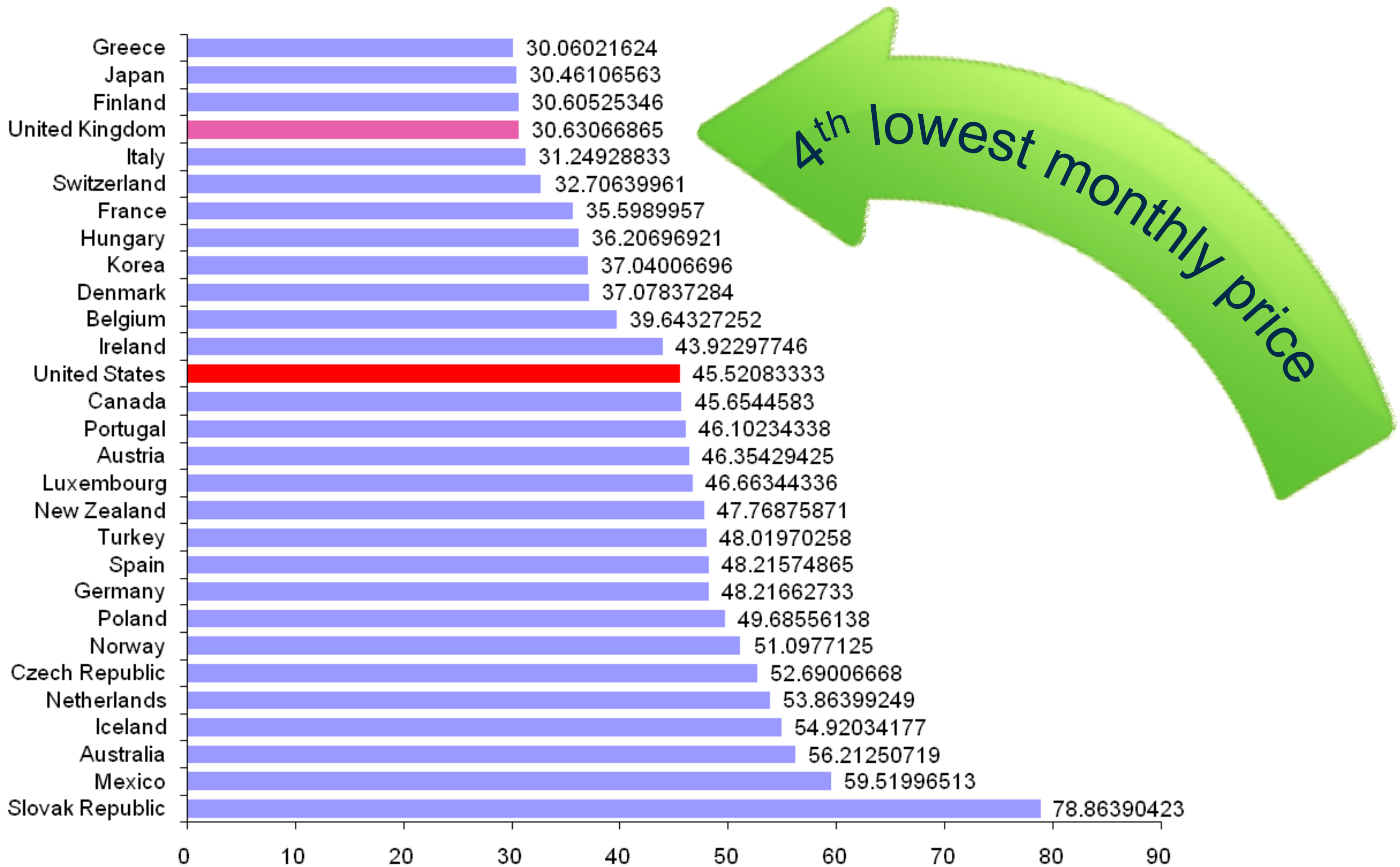
= UK

= US

OECD Broadband Portal, 2009

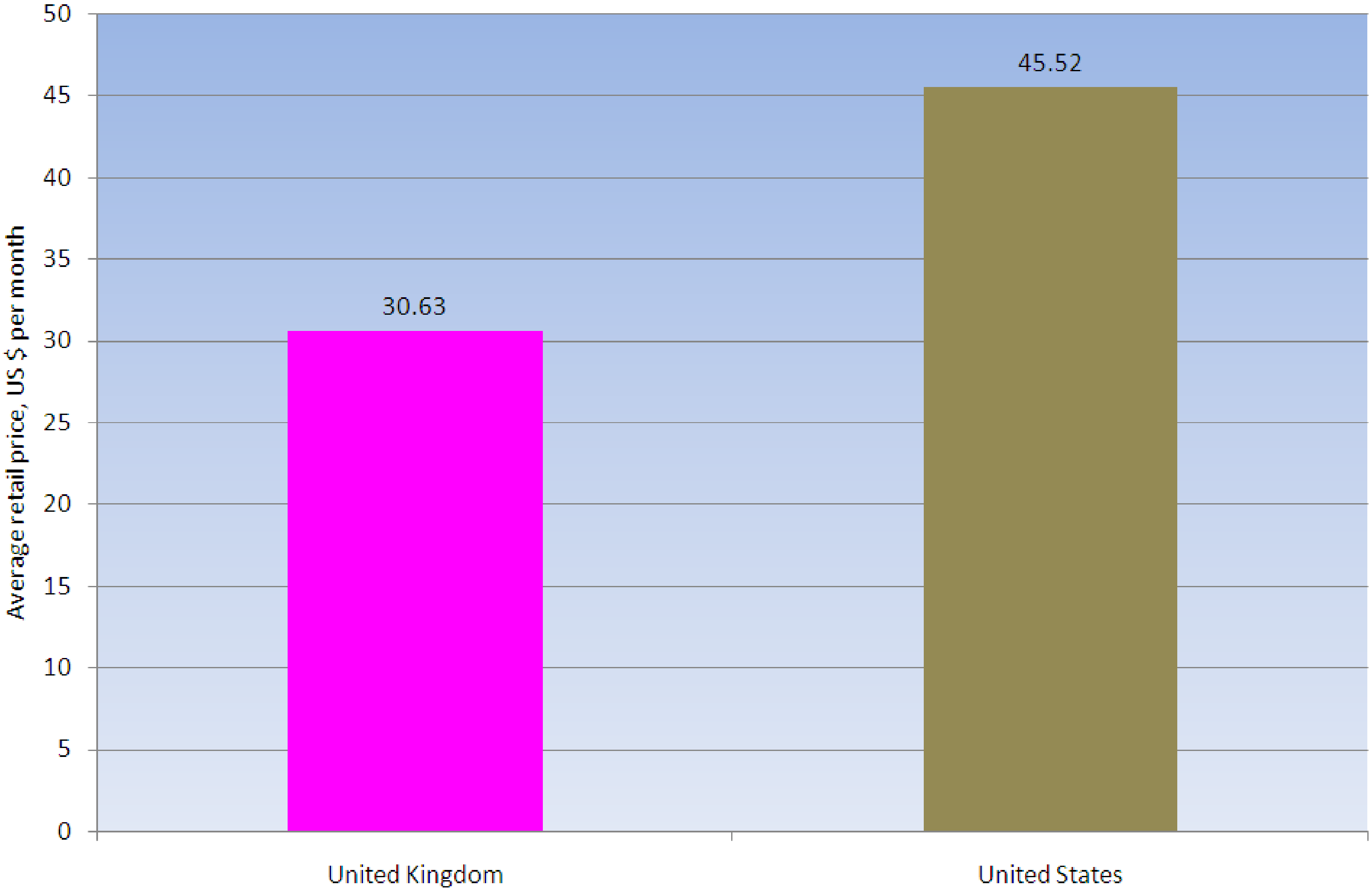
Intense intra/intermodal competition has lowered prices for broadband subscribers

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



Source: OECD

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



OECD Broadband Portal , September 2009

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

- Over 700 national and regional ISPs compete to serve a population 1/5th 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 and 75% by 2011 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.
- BT spent £10 billion upgrading and rationalizing its core network to create its end-to-end IP 21C network.

Fair regulation does not deter network investment

BT

Conclusion

Proper regulation of network chokepoints stimulates greater innovation, results in lower price 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.

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. 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.