Playing The T1 Access Game

David Rohde

Don't be satisfied with carriers' initial discounts, and don't assume flat rates are always the way to go.

Corporate networking professionals view widespread reports of a national and global fiber glut with a mixture of glee and dread. Glee because, logically, it should lead to lower prices for voice and data services. Dread because it means having to explain to corporate management that complex enterprise networking services depend on a lot more than raw bandwidth capacity, and carriers don't hand out price cuts on a silver platter.

Fortunately, substantial cost reductions are available on the two enterprise services that most closely resemble raw bandwidth: Long-haul private lines and dedicated access from the customer premise to a carrier point of presence (POP). While not every corporate network employs point-to-point private lines, almost everyone uses dedicated access for one thing or another. The T1 access line remains the *lingua franca* for getting from the customer premise to the chosen carrier for bulk outbound calling, 800 service into a call center, frame relay and ATM networks, access to the public Internet, corporate VPN remote-access termination and even long-haul private lines themselves.

So, if T1 access is in such high demand, how do you save money on it? With a disciplined approach to procurement, that's how. Fiber glut or not, AT&T and others will tell you that T1 prices are going *up*, not down, and they have their recent initial contract bids to prove it.

But the "whole" truth is a lot more complicated. The six-year-old saga of rapid price erosion of dedicated access line pricing in now its third phase and it puts a premium on user negotiating skills.

In the first phase, in the mid-1990s, large corporations with many branch locations broke the tyranny of mileage-based local-carrier tariff prices. They won national contracts from long-distance carriers—who bought T1s from multiple local carriers on the user's behalf—with flat monthly rates ranging from $300 to $500 apiece. In the second phase, in the late 1990s and 2000, the carriers quietly instructed their sales forces to haul out "generic" or "promotional" flat-rate T1 offers at around $300, even for medium-sized contracts, if a user had presented even a slightly credible chance of taking their business elsewhere.

Now, in the third phase, the easy promotions are drying up—or are available at much higher prices. But both medium and large enterprises with truly rigorous competitive bid processes are winning national T1 access at rates lower than ever before, down to $200 a month or even less.

Banding System

One key to getting the best dedicated access deal—both for T1s and other speeds you may require, including fractional and multiple T1s and T3 access circuits—is to understand the carrier's mentality. This way you'll learn not to get obsessed with obtaining a perfectly flat rate for dozens or hundreds of locations, but to get the best *deal*—i.e., spend the least money—possible.

Access pricing became a competitive tool to win national contracts when first AT&T and then its main competitors matched geography and demographics to regulatory trends. Retailers, financial institutions, media organizations and others generally put their offices in population centers, reasonably close to interexchange carrier POPs. In the mid-1990s, AT&T realized that while LEC list prices varied tremendously, they could afford to "eat" the mark-up on a few T1s in high-tariff areas, so long as a national enterprise contract gave them lots of short-haul tail circuits to their own densely-spaced POPs.

Along the way, AT&T refined this method into a simple banding system that is as good or better than a pure flat rate for users. Typically, AT&T will propose one monthly price for any customer site within five miles of an AT&T POP, another for a site 6–20 miles away and a third for any site 21–50 miles away. It then may add a partially mileage-based price for dedicated access circuits beyond 50 miles—usually a certain dollar amount plus a rate per mile for each mile beyond 50. This can come into play in contracts for manufacturing companies, whose plants are located outside major population centers.

Over the past couple of years, it has become common in even minimally competitive bids for

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Even during the current upheaval, try to get bids from second-tier carriers

AT&T to offer prices using the banding system that are even better than otherwise juicy-sounding flat rates. During one period before IXC tariffs were abolished in August 2001, AT&T floated within its sales force a "Generic Contract Tariff" that offered rates shown in Table 1.

TABLE 1 AT&T's Generic Contract Tariff Prices—Pre-August 2001

Local channel mileage	Fixed Charge	Per-Mile Charge
0–5	$150	None
6–20	$230	None
21–50	$300	None
51+	$300	$3 per mile

TABLE 2 Prices Achieved via Negotiation (Medium /Large Enterprise Customers—2000-2001)

Local channel mileage	Fixed Charge	Per-Mile Charge
0–5	$148.75	None
6–20	$212.50	None
21–50	$272.00	None
51+	N/A	N/A

The idea was for sales reps to pull this deal out of their pocket if needed. The deal was based on a real contract for an original customer that was filed as a "contract tariff" with the FCC. But unlike most other such contracts, the deal had no "monitoring conditions," which are specific traffic patterns unique to a given customer that obviated the legal requirement that tariffs—even "contract tariffs"—be available to "similarly situated customers." This deal was especially designed for customer "winback" situations, and AT&T carefully instructed the field to try not to "price down the existing base."

Of course, savvy customers were not necessarily satisfied even with these rates and negotiated them down. Many competitive bids for medium and large enterprises in 2000 and 2001 went for rates similar to what's shown in Table 2.

Not only were these rates lower than the "Generic Contract Tariff," but as a result of negotiation these deals were available for two-year term commitments. The generic contract tariff rates were for a three-year commitment; a two-year "generic" deal cost more. This is important to keep in mind as the carriers, aided and abetted by some gullible analysts and consultants, have told users to lengthen their term commitments.

Flat rates, by contrast, can be a drag. Some of the same customers received bids from other carriers where there are no bands at all and the rates are truly flat—but the number itself is $250 or $275 per month per site, a worse bottom line than the proposals above. And today, some customers with million-dollar-plus annual commitments are simply signing off on deals that call for all T1s to be $400, $450, even $500 and seem to think they are getting a "deal."

In fact, $500-a-month T1 access lines are now common in the AT&T Business Network (ABN) bundle for medium-sized organizations, proving again that just because something is superficially "convenient" because it's "bundled," doesn't mean it's particularly good.

Competition Matters

But recently, AT&T has decided to change its approach. Some initial bids are arriving with what looks like the equivalent of a generic contract tariff, where $300 is the charge for the *shortest* band—that is, 0–5 miles—and rates go up from there. Another inconvenience is that AT&T often reverts to calling these "list" prices and then offers grudging discounts of 5 percent for a one-year deal, 10 percent for two years and 15 percent for three years.

The key for most users is to get bids not only from at least two of the Big 3, but also from at least one second-tier carrier. Granted, that may also mean putting on a poker face to get your incumbent carrier to believe you really might bolt even during today's telecom-industry upheaval! For example, throughout 2001 Qwest, Broadwing and the now unfortunately bankrupt Global Crossing were actively bidding against the Big 3 on multimillion-dollar deals with flat offers of $200 or even less per T1 on large networks. AT&T customers also benefited when they got bids from WorldCom, which were often in the neighborhood of $250 per T1—though like AT&T, WorldCom's *initial* bids are now trailing up.

Sprint's approach has been less consistent. For some periods it has tended to offer attractive flat-rate deals, and at other times it has reverted to divergent per-line pricing unique for each site. But the key is that none of these numbers will arrive in response to your RFP unless you send it out to multiple bidders. You also stand a better shot of negotiating your way down the T1 access ladder if your current overall volume commitment to any one carrier is no more than 75 percent of your total voice and data traffic—so remember that whatever you commit to in your next contract could affect the one after that.

Other tips in negotiating dedicated-access line prices:

- Avoid percentage-based discount plans. All the carriers have "standard deals" that involve term- and volume-discount percentages off unrealistic list prices. AT&T's, for example, is called the Data Services Volume Pricing Plan (DSVPP.)

A look through AT&T's recent contracts listed on its Web-based Service Guide shows reams of customers who have accepted DSVPP discounts on T1 local channels in the 35 percent or so range. Avoid these. Market-based access prices are much more than 50 percent below list price, but you won't get there by starting from list. Bottom line: Work your way *up* with carriers starting from a benchmark market price, not *down* from list prices.

■ Have your contract lay out all the "rate centers" where your flat-rate or banded deal applies—*or may need to apply*—over the course of your term contract because of anticipated growth. Carriers call these the "NPA/NXX" lists—NPA, or Numbering Plan Area, being a fancy term for area code, and NXX being telecom-industry jargon for exchange, or the next three digits of a telephone number.

The reason is that as you work your way down the list of interexchange carriers, their list of POPs becomes smaller and you want them to specify in advance which POPs apply to which mileage bands. Otherwise, you may find that a disproportionate number of your corporate sites are more than 50 miles from your IXC's POP, which almost always means you revert to mileage-based rates. Even a carrier as large as Sprint, for example, often reverts to mileage rates once you get past 20 miles.

■ Don't confuse dedicated-access deals with T1 *Internet* access service. T1 Internet prices—two years ago regularly $1,500–$1,800 from Tier 1 carriers—have now fallen well below $1,000 a

Don't confuse dedicated access with T1 Internet access

Can The Government Really Improve Installation Intervals?

A T1 access line at *any* price is useless unless you can get it installed. What's more, the best pricing deals often come on bulk arrangements where the enterprise needs a coordinated rollout—or cutover—on a tight national schedule. And rudimentary service-level agreements for dedicated-access installation intervals are shot full of loopholes, with some smaller carriers even limiting them to 20 sites on a national contract.

Can the regulators do anything to improve chronically late installations? User groups and CLECs have taken heart from interest expressed by FCC Chairman Michael Powell in "enforcement" issues, even as he attempts to cut the overall volume of regulations on dominant carriers. Last November the FCC opened a proceeding to consider implementing performance measurements on incumbent carriers' services for "special access," the regulatory term of art for dedicated access lines such as T1 and T3 circuits.

The commission indicated that it was open to ideas, if not for a strict national standard for T1 installations, then at least for response times to new orders, trouble tickets and other ongoing measurements of access-line performance. But, like many such attempts at regulatory oversight, many of the ideas that have flowed into the Federal Communications Commission are one-sided, arguably serving other carriers' corporate and political interests more than true service improvement.

For example, a coalition of long-distance carriers and CLECs filed a joint proposal that would require a Firm Order Commitment (FOC) to an Access Service Request (ASR) within two days, 98 percent of the time—five days for T3 circuits. It then requires, in turn, that the due date specified in the FOC be met 98 percent of the time.

But these are largely commitments from one carrier to another, not a guarantee to users. Under the proposal, the ILEC can simply remove an order from the calculation by reporting a code meaning "Customer Not Ready." Some user reps consider this a loophole for long-distance carriers or CLECs to get away with problems on *their* end of the process. Why? Under the proposal the "customer" can just as easily be a long-distance carrier that hasn't established sufficient cross-connects or trunking to handle the order when the ILEC says "go."

As a result, the *Ad Hoc* Telecommunications Users Committee has warned the FCC not to let the access-performance issue devolve into just another inter-carrier "non-discrimination" issue. "A rule that requires the ILECs to treat all access customers the same, but badly, does nothing to protect the interests of end users," said Kevin DiLallo, an attorney for the *Ad Hoc* Committee, in a comment letter to the FCC. At a minimum, a "Customer Not Ready" code should distinguish whether the "customer" in question is really a user or another carrier, DiLallo said.

Bottom line: For regulators to be able to make their mark, they'd need to pass a performance-measurement guideline that looks through the value chain from the physical owner of the access facility to the enterprise customer. If what results is nothing more than a new finger-pointing tool for one class of carriers to demand penalties on another, the government might be best off leaving the matter for private SLA negotiations□

—David Rohde

Don't settle for a standard 35 percent off list

10, 9, 8, 7 Cents...Per DS0 Mile

Some day in the not-too-distant future, the long-distance carriers will get rid of their hang-up about pricing long-haul private lines according to mileage, given the improvements they've claimed to make in optical repeaters and other transport technology. In the meantime, however, it's best for users not to get too hung up themselves on "simple" private-line pricing, when a few minutes with a calculator can reveal great deals even with traditional pricing methods.

Responding to the challenge of some "flat-rate," private-line deals in the market from wholesale and second-tier carriers, the large carriers have driven down market prices below key benchmarks. In the recent past, it was almost impossible to get a T1 circuit for less than $4 or $5 per mile per month, once you toted up the fixed and variable (per-mile) rate elements. Then, in the last year or two, prices fell rapidly to the $2.40-per-mile mark, which is key because that price equals 10 cents per "DS0 mile," given T1s' total of 24 DS0 (64-kbps) equivalents.

Once you hit 10 cents per circuit mile, any additional cent-by-cent improvement in the benchmark yields huge percentage savings. For example, some large carriers officially list their long-haul T1 prices in the range of $2,500 plus $3 or more per circuit mile, but negotiated discounts easily hit 50 percent, with 60 percent or more not out of the question on large enterprise contracts. The end result—after a competitive bid and some hard bargaining—may be a T1 price that looks something like $800 plus $1.25 per mile.

Now do the math: For a 900-mile T1 line, which equals 21,600 DS0 circuit miles, that schedule comes to a monthly price of $1,925. The cost in bandwidth units: 8.9 cents per circuit mile.

Some users might observe that such benchmarks are hard to hit if the average circuit is much shorter—500 miles or less—because the fixed element of the price becomes a greater percentage of the total cost. But in some of these situations, even some of the large carriers will adjust their pricing to specify either a flat cost or a simple per-mile calculation, though with a per-circuit minimum price. Either way, a little number-crunching is required on both sides of the negotiating table to come out with a successful result and a signed contract□

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month. Hearing that, some users think they're getting a deal when they get "T1 dedicated access" for $500. They're not.

Unlike Internet access, dedicated access is not a service—it's a dumb pipe. All it does is get you to the carrier or ISP of your choice; from there you have to add the services you want—bulk outbound toll, inbound "toll-free" service, frame relay, ATM, site-to-site IP VPNs and/or, indeed, connectivity to the public Internet (what the industry has unfortunately grown up calling Internet "access").

■ Many call center and other applications require ISDN Primary Rate Interface (PRI) functionality to be added to the dedicated access line. PRI charges should be proportionate to the T1 deal; don't let PRI list prices knock the advantage you gain in negotiating for the pipe. For example, those with $300 T1s should have to pay no more than $100 a month for the PRI.

■ Leverage the fact that you're giving one particular carrier *dedicated* access at dozens or hundreds of sites to bring down rates for the services attached to those access circuits. For example, cheaper T1s and the availability of bonding options has led to a surge of N×T1 ATM services being installed. Even T3 ATM ports are available for dramatically lower prices than in the past, often below $3,500 a month—not far from what T1 frame relay list prices had been drifting up to in the past two years. Make sure those multiplexed T1 ports and virtual circuits are available for small increments, and point out to carriers in your bid process how much they gain from have a nailed-up pipe from their POPs to your locations over the next two or three years.

■ Never pay "central office coordination" (COC) or "access coordination function" (ACF) charges. They're obsolete holdovers from a higher-priced era, but they're still in the official service guides—so your contract must specify an explicit waiver of these items. Some carriers still try to sneak by a surcharge for "customer-provided access," meaning that you rather than the IXC called the local carrier for the T1 or other facility. It's a red herring—you should get a waiver because you're throwing a lot of business at one IXC, regardless of who filled out the paperwork. Insist on it.

Conclusion

Old truisms die hard, and the fact that access costs traditionally ate up potentially half a company's telecom budget psychologically hamstrings many telecom service buyers who still simply, and gratefully, take a standard 35 percent discount off list access charges. Many companies are now installing T1s at sites that previously had only

Your carrier benefits when more sites are on dedicated access

switched access, and the fact that this buys you savings on per-minute toll costs should not be the end of the conversation. Your carrier benefits when more and more sites—not only your corporate locations but also supply-chain contacts in ever-widening extranets—seem destined to go on dedicated access, either separately for voice and data or in one integrated-access package.

From the very beginning, your potential bidders should know that dedicated access prices, either flat or in simple bands, are as important as any other rate element such as per-minute tolls or frame relay ports. After all, those pipes to their POPs are ultimately their pathway to your company's growth in traffic. Make sure you get the best deal back in return□

Companies Mentioned In This Article

AT&T (www.att.com)
Broadwing (www.broadwing.com)
Global Crossing (www.globalcrossing.com)
Qwest (www.qwest.com)
Sprint (www.sprint.com)
WorldCom (www.worldcom.com)