

ORIGINAL

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

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JUN 16 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Implementation of Sections of)
the Cable Television Consumer)
Protection and Competition Act)
of 1992)
)
Rate Regulation)

MM Docket 92-266
MM Docket 93-215

OPPOSITION OF BELL ATLANTIC¹
TO PETITIONS FOR RECONSIDERATION

As Bell Atlantic pointed out in its petition for reconsideration in these proceedings,² the Commission's rate regulation rules already give cable operators preferred treatment compared to telephone companies in a number of significant respects. Nonetheless, cable operators still are not satisfied, and through their own petitions here seek to expand upon the artificial regulatory advantage that they already enjoy. Their efforts must be rejected.

First, one of the cable petitioners claims that the Commission's rate regulation rules will result in the widespread failure of cable companies, and prevent future

¹ The Bell Atlantic telephone companies are Bell Atlantic - Delaware, Inc., Bell Atlantic - District of Columbia, Inc., Bell Atlantic - Maryland, Inc, Bell Atlantic - New Jersey, Inc., Bell Atlantic - Pennsylvania, Inc., Bell Atlantic-Virginia, Inc., and Bell Atlantic - West Virginia, Inc.

² See Petition of Bell Atlantic for Further Reconsideration, MM Dkt Nos. 92-266 & 93-215 at 2-3 (May 16, 1994).

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infrastructure development.³ The evidence, however, suggests otherwise.⁴ Moreover, local exchange carriers and others recently demonstrated that applying to telephone companies the same rules that already apply to cable -- including pure price caps, economically correct depreciation rates and a more reasonable productivity offset -- would strongly promote infrastructure development and economic growth.⁵ Ironically, cable interests have opposed extending to telephone companies the very rules which they now say are too harsh.⁶

Second, the cable petitioners claim that in any cost of service proceedings they should benefit from a higher return than telephone companies are permitted in such

³ See Petition for Reconsideration of Comcast Cable Communications, MM Dkt No. 93-215 at 3 (filed May 16, 1994) ("Comcast Pet.").

⁴ Since the Commission's latest orders were released, for example, a number of cable operators have announced plans to accelerate system upgrades that will enable them to compete directly with local telephone companies. G. Naik, "Southwestern Bell Plans Phone Service for Its Cable Customers in Sibling's Turf," Wall St. J. at A3 (May 23, 1994) (Southwestern Bell cable system to compete with Bell Atlantic in Montgomery County, Maryland); "Rochester Telephone Close to Implementing Landmark Plan," Comm. Daily at 1 (May 18, 1994) (Time Warner cable system to compete with Rochester Telephone).

⁵ See, e.g., Comments of Bell Atlantic, Price Cap Performance Review for Local Exchange Carriers, CC Dkt 94-1 (filed May 9, 1994).

⁶ See, e.g., Comments of the California Cable Television Ass'n, Price Cap Performance Review for Local Exchange Carriers, CC Dkt 94-1 (filed May 9, 1994).

circumstances.⁷ Their argument, however, is based entirely on the bald assertion that cable companies face greater regulatory and business risk than telephone companies. The cable petitioners are wrong on both scores.

As the affidavit of Dr. Vander Weide that was relied upon by the Commission explained, telephone companies face significantly greater competitive pressure than cable operators and a correspondingly greater business risk.⁸ This differential continues to grow, as competition for interstate telephone services increases rapidly. Cable operators, competitive access providers, interexchange carriers, utility companies, and wireless providers have all moved aggressively to compete for these services -- both alone and in combination.⁹ In contrast, cable operators still face virtually no multichannel competition, due in a growing number

⁷ Comcast Pet. at 19-20.

⁸ See Affidavit of James H. Vander Weide, attached to Joint Comments of Bell Atlantic, the Nynex Telephone Companies and the Pacific Companies, MM Dkt 93-215 (filed Aug. 25, 1994) ("Joint Comments").

⁹ See Id., Vander Weide Affidavit at 12. The rapid increase in competition is occurring nationwide, see P. Huber, The Enduring Myth of the Local Bottleneck (Mar. 14, 1994); R. Harris, Economic Benefits of LEC Price Cap Reforms, at 8-11 & App. B, attached to Comments of USTA, Price Cap Performance Review for Local Exchange Carriers, CC Dkt 94-1 (filed May 9, 1994), and in Bell Atlantic's telephone service areas as well, see Affidavit of Richard E. Beville, Price Cap Performance Review for Local Exchange Carriers, CC Dkt 94-1 (filed May 9, 1994) (copy attached).

of instances to delays in necessary regulatory approvals to deploy competing video dialtone systems.¹⁰

Likewise, telephone companies face significantly greater regulatory risk than cable operators. Not only do existing Commission rules give cable operators preferential treatment, but the risk facing telephone companies is further heightened by the fact that rates for basic telephone rates are often kept artificially low for public policy reasons. These artificially low rates must be subsidized by pricing other services higher than would otherwise be the case, increasing the risk that profitable services will be lost to competitive entrants. In contrast, cable operators face no such problem.

Third, the cable petitioners claim that in a cost of service proceeding they should be permitted to recover in regulated rates the full cost of "intangibles" -- including the cost of excess acquisition premiums -- even though telephone companies could not do the same.¹¹ Absent the ability to immediately reflect the full amount of excess acquisition premiums in higher rates, the petitioners claim a transition mechanism should be established to permit their

¹⁰ At present, there are a total of 25 different video dialtone applications or amendments awaiting Commission action, representing a total of over \$3.3 billion of proposed infrastructure investment.

¹¹ Comcast Pet. at 15-17; Petition for Reconsideration of Cablevision Industries, MM Dkt 93-215 at 12 (filed May 16, 1994).

recovery through higher rates over some period of years.¹² The petitioners, however, offer nothing new on this score. The same arguments were already fully briefed¹³ and rejected by the Commission.¹⁴

In short, while the cable petitioners claim that excluding excess acquisition premiums would be confiscatory, the truth is that excluding such costs is standard regulatory practice and has been repeatedly upheld by the courts -- including in instances where premiums were paid prior to the institution of regulation.¹⁵ Moreover, the Commission has not held that cable operators are barred from recovering these costs -- only that they cannot be included in a cost of service showing to justify regulated rates above the benchmark. These costs can be recovered through rates for other services, and even through regulated rates to the extent these rates remain at or below the benchmark.

Fourth, one cable petitioner claims that cable operators not only should be able to pass through any programming costs as exogenous, but also should be permitted

¹² Id.

¹³ See Joint Comments at 22-26; Joint Reply Comments of Bell Atlantic, the Nynex Telephone Companies and the Pacific Companies at 11-19 (filed Sept. 14, 1993) ("Joint Reply").

¹⁴ Implementation of Sections of the Cable Act of 1992, Rate Regulation, MM Dkt 93-215, Report and Order and FNPRM at ¶¶ 89-97 (Mar. 30, 1994).

¹⁵ See Joint Reply at 17-19 (and cases cited therein).

to pass through a mark-up on these costs of more than the currently allowed 7.5 percent.¹⁶ But programming costs are no more beyond the control of cable operators than equipment costs are for telephone companies. As a result, to the extent cable operators are permitted to pass these costs through as exogenous (with or without a mark-up), there is no basis for treating the equipment costs incurred by telephone companies any differently.

Finally, the cable petitioners argue they should not be subject to standardized accounting rules comparable to those that apply to telephone companies.¹⁷ But in other proceedings the cable industry argues that telephone companies should be subject to even more detailed rules than currently apply.¹⁸ Cable cannot have it both ways. As cable moves rapidly into telephony, it should be subject to the full range of accounting, cost allocation and affiliate transaction rules that are applied to telephone companies as they begin to provide video services.¹⁹

¹⁶ See Petition for Reconsideration of Viacom Int'l at 2-5 (filed May 23, 1994).

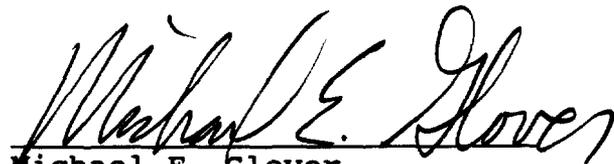
¹⁷ Comcast Pet. at 22-23.

¹⁸ See Petition for Rulemaking of NCTA and CFA, Amendment of the Commission's Rules to Establish and Implement Regulatory Procedures for Video Dialtone Service, RM 8221 (filed Apr. 8, 1993).

¹⁹ See Joint Comments at 14-18; Joint Reply at 6-11.

Respectfully submitted,

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)

Price Cap Performance Review)
for Local Exchange Carriers)

Notice of Proposed Rulemaking)

CC Docket 94-1

**AFFIDAVIT OF RICHARD E. BEVILLE
IN SUPPORT OF COMMENTS OF BELL ATLANTIC**

1. My name is Richard E. Beville. I am currently employed by Bell Atlantic Network Services, Inc. as Assistant Vice President - Network Competitive Response. I lead a team that monitors, anticipates and responds to the competition faced by the Bell Atlantic Telephone Companies ("Bell Atlantic").¹ I submit this affidavit concerning competition faced by Bell Atlantic in general support of Bell Atlantic's proposals for modification of the Commission's price cap regulations and specifically to seek removal of those services that no longer require price regulation.

2. In this proceeding, Bell Atlantic seeks authority to remove from price regulation services that already face significant competition and to remove additional services from regulation as they become fully competitive. While Bell Atlantic faces

¹ The Bell Atlantic telephone companies are Bell Atlantic - Pennsylvania, Inc.; Bell Atlantic - Delaware, Inc.; Bell Atlantic - Washington, D.C., Inc.; Bell Atlantic - West Virginia, Inc.; Bell Atlantic - Maryland, Inc.; Bell Atlantic - New Jersey, Inc.; and Bell Atlantic - Virginia, Inc.

increasing competition for *all* of its services, three categories of services face especially intense competition and should be removed from price cap regulation immediately. These include: a) interstate intraLATA toll and corridor interexchange services; b) high capacity (DS1 and DS3) access services; and c) video dialtone services. Removing these services from price caps will provide Bell Atlantic with the flexibility it needs to compete, and will provide customers with the benefits and protections of fair competition.

I. BELL ATLANTIC FACES COMPETITION IN ITS REGION.

3. Competitors have already made substantial inroads in Bell Atlantic's service territory, and interstate access services have been a principal focus of their efforts. The entry of competitors into interstate access services has been facilitated by the concentration of most major customers into a relatively few urban areas. The mid-Atlantic region served by Bell Atlantic is particularly concentrated -- 76% of Bell Atlantic's interstate access revenues come from just 25% of its wire centers. This concentration allows new entrants to compete for a large portion of Bell Atlantic's customers with only a fraction of the investment made by Bell Atlantic, which is committed to provide service throughout its territory.

4. Most of Bell Atlantic's competitors for interstate access are well funded companies with a substantial existing customer base. These competitors include Competitive Access Providers ("CAPs"); cable companies ("CATV"); Interexchange

Carriers ("IXCs") and Regional Bell Operating Companies ("RBOCs"); electric utilities; and the wireless industry.

A. Competitive Access Providers

5. CAPs compete today with Bell Atlantic in the interstate arena primarily by providing special access, private line, and switched access services, including high capacity data services. CAPs deploy fiber optic networks through urban areas, business parks and nearby suburbs across the country. The industry also is expanding rapidly, both in terms of geographic coverage and the range of services provided. CAPs did not exist in 1982. Today, CAPs vigorously compete in every state and in every major urban business center in the Bell Atlantic region.²

6. The CAP systems have enormous amounts of excess capacity. No more than 10 percent of CAP fiber capacity is actually being used to carry traffic. Thus, a single CAP carrying five percent of access traffic from an urban business district could readily expand to 50 percent, at relatively little increase in cost.

7. The major CAPs in the Bell Atlantic region are all well financed and are expanding their businesses as demonstrated in the following examples:

a. Metropolitan Fiber Systems Communications

² Unlike Bell Atlantic, CAPs and other competitors have little or no informational reporting requirements. Because Bell Atlantic's information on its competitors' networks and markets is limited to public information, such information inevitably understates the growth of competitive alternatives, both in number and scope.

Company, Inc.'s ("MFS") strategic goal is to "become the primary provider of telecommunications services to business and government end users nationwide."³ According to a Business Week report, MFS has a total market value of nearly two *billion* dollars.⁴

MFS has a presence in every state in the Bell Atlantic region. It has deployed over 17,000 miles of fiber throughout the portions of Bell Atlantic's region that contain the highest concentration of lucrative business customers. For example, attached as Exhibit 1 hereto is a map of MFS's network in Washington, D.C. and Northern Virginia.⁵

MFS also is expanding its coverage by forming alliances with companies in other industries. In New Jersey, for example, MFS has formed an alliance with MH Lightnet to expand its existing network. MH Lightnet is owned by Maclean Hunter, a holding company that, among other things, owns cable facilities in New Jersey used by MH Lightnet. Maclean Hunter, in turn, is owned by Rogers Communications, Canada's leading cable company.

In addition, MFS is expanding the scope of its service offerings. MFS has filed with local commissions to be a local service provider and/or reseller in Washington, Delaware,

³ MFS Communications Company, Inc. Prospectus for the offering of 4,000,000 shares common stock at 3 (subject to completion September 1, 1993) (hereinafter, "MFS Prospectus").

⁴ Business Week at 69 (March 28, 1994).

⁵ This map does not include MFS's most recent expansion activities that were reported in the MFS prospectus, and therefore understates the total network.

Maryland, West Virginia and Pennsylvania.⁶ In fact, the Maryland Public Service Commission recently approved MFS's application and authorized it to provide local exchange and interexchange service in that state, both as a reseller and a co-carrier.⁷ According to MFS's president, because of that decision "MFS will be able to offer services to even the smallest businesses in Maryland."⁸

b. Eastern TeleLogic Corp. offers private line and switched services in the Philadelphia and Delaware Valley region. Comcast Corp., a Philadelphia headquartered cable television, cellular communications and Specialized Mobile Radio company, purchased 51% of Eastern TeleLogic in October 1992. Comcast had 1992 revenues of \$900 million and an operating cash flow of \$397 million. Five venture capital firms own the remaining 49% of Eastern TeleLogic.

Eastern TeleLogic already serves approximately 250 business locations in the Philadelphia area and claims the "largest fiber optic network in the Philadelphia area."⁹ Eastern TeleLogic also serves New Jersey and has begun to expand its network into Delaware.

⁶ MFS is already certified as a reseller in Pennsylvania.

⁷ *In re Application of MFS Intelenet of Maryland, Inc.*, Case No. 8584 (order issued April 25, 1994).

⁸ "Bell Atlantic Gets Competitor for Business Service," Baltimore Sun, April 27, 1994 at A-1.

⁹ Bell Atlantic-Pennsylvania Chapter 30 Filing, Commonwealth of Pennsylvania Public Utility Commission Docket No. P-00930715, Feb. 8, 1994, Tr. at 2055-57 (Testimony of Gary Lasher).

c. Penn Access Corporation ("Penn Access"), a Pittsburgh centered CAP, has a goal "to control as much as 50 percent of the current commercial market for local telephone and data transmission services."¹⁰ Digital Direct, a subsidiary of Telecommunications, Inc. ("TCI"), acquired Penn Access in May 1993 for approximately \$10 million. TCI is the largest cable TV company in the United States with 1993 annual revenues of four billion dollars. Penn Access already has nine fiber loops serving customers and reaches all the major business centers in the Pittsburgh area. In addition Penn Access uses the facilities of the local Pittsburgh power utility, Duquesne Light Co.

d. Teleport Communications Group ("Teleport") serves as a telecommunications beachhead for the cable industry. It is owned by five large CATV companies: TCI, Time Warner Entertainment Inc., Comcast Corp., Continental Cablevision Inc. ("Continental") and Cox Cable Companies ("Cox"). Teleport provides an array of competitive services in Northern New Jersey. Cox Fibernet, a CAP that is affiliated with Teleport's network, operates in the Tidewater area of Virginia and shares certain facilities with Cox Cable Television.

e. Local Area Telecommunications, Inc. ("LOCATE") has a strategy that is significantly different from that of the other CAPs. Rather than a fiber based service, LOCATE intends to become a wireless telephone company by combining digital microwave

¹⁰ Pittsburgh Business Times and Journal, June 14, 1993 at 1 (quoting a Penn Access Vice President).

with a Personal Communications Network ("PCN"). In December 1992, LOCATE acquired Metromedia Paging, the second largest paging company in the United States from Southwestern Bell for \$300 million and set up a new, public subsidiary, Mobile Media Corp., for its paging division. LOCATE currently provides access service through its existing microwave network. LOCATE has facilities in the metropolitan areas of Philadelphia, Pittsburgh, Baltimore, Northern New Jersey, Wilmington and Washington, D.C.

f. ValleyNet provides high capacity fiber services to locations that normally would not have a CAP network. It is a partnership of five different local telephone companies that connected their existing fiber backbone networks. It has a 510 mile fiber network that stretches from Johnson City Tennessee, through Virginia, West Virginia, and Maryland to Pennsylvania. ValleyNet has recently added an extension of its network that runs from Wytheville, Virginia through Beckley and Charleston, West Virginia.

g. Virginia Metrotel. Virginia Metrotel is a joint venture among three Virginia independent telephone companies. It is building a fiber optic network in Richmond, Roanoke/Lynchburg, and Norfolk and has received certification to provide service. Metrotel's goal is to be the number one access provider in that area.¹¹

¹¹ "SCC Allows Partnership to Connect Calls," Richmond Times-Dispatch, April 26, 1994 at C-8.

8. Further, the Commission's collocation orders¹² have promoted expansion of CAP competition. Switched and special collocation -- which will permit CAPs to terminate their own access transmission facilities at local exchange company ("LEC") central offices -- allows CAPs to expand their network reach without building plant to their customer premises. In fact, MFS has stated that, as a result of the collocation rulings, it "will be able to offer interstate special and switched access transport services to virtually every business and government end user in the Metropolitan areas which the Company elects to serve."¹³

9. With further physical expansion of their networks into residential areas, and with the addition of further switching capability, CAPs have the ability to become providers of a full range of local access and exchange services. This capability is enhanced by CAPs' ability to collocate in the LEC's central office, and it is further enhanced by CAPs' existing relationships with interexchange carriers and cable companies.

B. Cable Companies

10. Cable companies have existing wire-based networks that pass nearly every home and business in the Bell Atlantic region. Cable companies have much of the physical plant required to provide telephony services, and cable companies already have

¹² ***Expanded Interconnection With Local Telephone Company Facilities***, 7 FCC Rcd. 7369 (1992) (special access collocation order), ***on recon.***, 8 FCC Rcd. 1741, ***further proceedings***, 8 FCC Rcd. 7374 (1993) (switched access collocation order).

¹³ MFS Prospectus at 4-5.

established relationships with residential customers. It is clear from existing competition, as well as industry pronouncements, that CATV providers intend to offer competition for a wide range of telephony services. For example, according to Cox Cable's vice president, Cox has "the platform in place" to provide high capacity data lines, local area networks and other telephony services.¹⁴

11. Within the Bell Atlantic region, 66% of households within the Bell Atlantic region subscribe to CATV, and CATV wires pass almost every home in the region. Thus, the CATV industry has a subscriber base of more than eight million customers spread throughout every state in the region, and could potentially serve many more.

12. TCI, Cox Cable, Comcast, and Jones Intercable, Inc. -- all of which have a presence in the Bell Atlantic region -- are currently offering cable telephony in the United Kingdom. British cable companies serve approximately a quarter of a million households with telephony.¹⁵ According to Brian Roberts, President of Comcast: "Two-thirds of the households taking our cable service in the U.K. are also taking our telephone service. We find local exchange competition to be viable."¹⁶ The experience these

¹⁴ *In The Matter of Investigating Telephone Regulatory Methods Pursuant to Virginia Code § 56-235.5, Commonwealth of Virginia, State Corporation Commission, April 28, 1994, Tr. at 306 (Testimony of Franklin Bowers).*

¹⁵ "The Enduring Myth of the Local Bottleneck," March 14, 1994 at 24.

¹⁶ "Brian Roberts: Stretching Comcast's Reach Through New Technology," *Broadcasting and Cable*, August 2, 1993 at 31.

companies gain in Britain will prove invaluable in the United States markets, where cable passes far more homes than in Britain, and many more of those homes subscribe to cable.

13. Cable companies have already begun using their facilities in the Bell Atlantic region to provide telephone competition. In addition to Cox Fibernet, which uses Cox cable facilities, AlterNet, Inc. is a CAP operated by Adelphia Communications and Continental Cablevision. AlterNet has recently been certified by the Virginia Commission and will operate over Continental's facilities in Richmond. Monmouth Cablevision, Adelphia Cable, and Comcast Cable Communications have started a joint venture in central New Jersey to set-up a fiber interconnection to provide access services.

14. In addition, cable companies now own a majority interest in key CAP competitors in the Bell Atlantic region or have been purchased by a CAP. For example:

- Comcast owns 51% of Eastern TeleLogic.
- Cox, TCI, Comcast, Time Warner and Continental own Teleport.
- Kiewit Sons Inc., the parent company of MFS, acquired a controlling interest in C-Tec, a holding company which owns cable subsidiaries.
- Rogers Communications/Maclean Hunter owns M.H. Lightnet.

C. Interexchange Carriers and Other RBOCs

15. The IXCs themselves as well as other RBOCs are or soon will be competing with Bell Atlantic within the Bell Atlantic region. IXCs, which already are established competitors for a

variety of services are now forming new alliances to reduce access charges and are beginning to enter the local market directly. Currently, there are over 125 IXCs in the Bell Atlantic region.

16. AT&T announced its intent to merge with McCaw Cellular, the nation's largest cellular carrier, and recently formed AT&T Personal Communications Systems, a new operating unit. "Analysts expect AT&T will find ways to link cellular customers directly to its long-distance network bypassing the local phone system, thus reducing the \$14 billion a year it pays to use those lines."¹⁷ The combined service would also give AT&T a marketing advantage over Bell Atlantic and other LECs.

17. MCI recently unveiled a plan to develop "MCI Metro", an alternative local transport network aimed first at large business customers in major metropolitan areas and later at residential customers. MCI intends to launch operations in over 20 cities, including Washington, D.C. Alone or with partners, MCI has committed \$20 billion toward the creation and delivery of new services for customers, and \$2 billion toward a local switching and fiber infrastructure. According to MCI's chairman and CEO, Bert Roberts, MCI intends to "attack the RBOCs' local markets through our MCI Metro company."¹⁸

18. In the Bell Atlantic region, Access Transmission Systems, Inc. ("ATS"), an MCI subsidiary, has already filed an

¹⁷ "AT&T + McCaw = One Tough AT&T", Business Week, August 30, 1993 at 29.

¹⁸ "The Enduring Myth of the Local Bottleneck," March 14, 1994, at iv.

application as a competing telephone company in Virginia. MCI also jointly markets its services with a variety of local cable companies in the Bell Atlantic region. For example, attached hereto as Exhibit 2, is a joint marketing flyer promoting MCI and Cable TV Arlington, now a Southwestern Bell subsidiary.

19. MCI has also formed an alliance with British Telecom to provide additional experience and capital. MCI and British Telecom will pay \$1.3 billion for 17 percent of Nextel, which is rapidly developing a nationwide digital wireless system. The co-owner of Nextel is Comcast, which provides yet another link into Bell Atlantic markets. The service is expected to be integrated with networkMCI, the company's multimedia communications venture. The plan is to provide a digital wireless network that reaches "95% of the country by the end of 1996."¹⁹ "What MCI wants is a direct connection to its customers so that it has the ability to carry intelligent network services right down to the end users."²⁰

20. RBOC and IXC alliances with cable companies also facilitate competition in the Bell Atlantic region. For example:

a. U.S. WEST acquired 25% of Time Warner Entertainment, which owns Time Warner Cable. The two companies will jointly share in the design, implementation and direction of full service networks. U.S. WEST and Time Warner are very clear on their intent to offer telephony as part of the full service

¹⁹ "Telephony's Competitive Landscape", Telephony, May 2, 1994 at 79.

²⁰ *Id.* at 79-82.

networks they will be providing nationwide. In the Bell Atlantic region, Time Warner operates cable systems in Pennsylvania, Virginia, and West Virginia and has nearly half a million subscribers.

b. Southwestern Bell, which already operates a major cellular franchise in the Baltimore/Washington metropolitan area, purchased cable franchises in Arlington County, Virginia and Montgomery County, Maryland from Hauser Communications. This acquisition makes it possible for Southwestern Bell to combine its cellular and cable properties to gain access to a large number of Bell Atlantic local service customers. The Arlington County and Montgomery franchises pass nearly 400,000 households and provide a base to serve the business community of the Washington metropolitan area. As noted above, the Arlington franchise is already jointly marketing its services with MCI.

c. Bell Canada agreed to purchase a 30% share in Jones Intercable, which operates in Virginia, New Jersey and Maryland. Ironically, as a foreign company operating in the United States, Bell Canada will be competing in key Bell Atlantic service areas without facing the same Commission and federal court restrictions that confront Bell Atlantic. In addition, Jones has agreed with MCI to offer telephone service to selected cable customers in Northern Virginia. The local leg of the incoming and outgoing long distance calls will go over the cable plant.

D. Power Utilities

21. Electric and gas utilities have an established

presence in virtually all United States homes and businesses and have the financial resources to deploy fiber/coax deeper into their networks for utility functions as well as communications applications. In fact, these companies have already begun to move into the access business. For example, within the Bell Atlantic region, Baltimore Gas & Electric, which has had a cooperative business relationship with MFS since 1990, has hundreds of miles of fiber in Baltimore and separately provides access service to business customers. Other utility companies are providing access services directly or are providing facilities to CAPs.

E. Wireless (Cellular and PCS) Competition

22. Wireless telephony is a growing segment of the telephone industry. IXCs are moving into this field to secure a competitive advantage, to try to bypass LEC networks, to reduce access charges and to generate new revenues. Cable companies and CAPs also are entering the wireless arena and are major recipients of PCS trial licenses. In the Bell Atlantic region, 21% of these PCS licenses are held by cable companies.

23. Very Small Aperture Terminals (VSATs), which use an inexpensive two-foot dish for voice and data communications via satellite, is another growing segment of the wireless market. For many data applications in the automotive, retail, financial, newswire, and lodging industries, VSATs have proven to be much cheaper than voice-grade leased telephone lines. At least 49 businesses within the Bell Atlantic region use VSAT communications at over 3,000 locations.

24. In sum, Bell Atlantic faces increasing competition from a variety of competitors. Attached as Exhibit 3 is a map of the Bell Atlantic region that shows the urban areas where these competitors operate. Moreover, while competition is growing for all services, it is already especially intense for several categories of interstate services.

II. INTERSTATE TOLL AND CORRIDOR SERVICES ARE COMPETITIVE

25. For Bell Atlantic, the bulk of revenues in its interexchange basket consists of interstate interLATA corridor service and interstate intraLATA service.²¹ For these services, all customers have competitive alternatives, and there is no justification for continued price regulation.

26. Since divestiture, Bell Atlantic has been permitted to provide interexchange service in two interLATA "corridors" -- from northern New Jersey to New York and between Philadelphia and southern New Jersey. Thus, Bell Atlantic competes head-to-head with AT&T, MCI and numerous other IXCs, that carry a majority of the traffic. In fact, 100% of the potential customers for Bell Atlantic corridor service have alternatives, and a majority of the revenues for corridor interexchange services go to other vendors even though Bell Atlantic's prices are below those of AT&T and MCI.

²¹ Included with interstate toll and corridor services, Bell Atlantic seeks competitive treatment for related operator services: Customer Dialed Calling Card Station, Operator Station, Person-To-Person, Directory Assistance Charge, and Directory Assistance Service Call. These operator services face competition from the same interexchange carriers that compete for interstate toll and corridor service customers. Bell Atlantic is not seeking competitive treatment for the remaining Operator Services.

Since divestiture, Bell Atlantic's corridor revenues have fallen an average of more than 11% per year due to competitive pressure.

27. In addition, within the Bell Atlantic region there are three LATAs that cross state lines. The Philadelphia LATA includes all of Delaware; the Washington, D.C. LATA includes northern Virginia and parts of Maryland; and the Hagerstown LATA includes parts of West Virginia and Maryland. In all three of these LATAs, all customers have the option of placing interstate, intraLATA calls by using AT&T, MCI or one of more than 40 other IXC competitors. They do so simply by dialing the 10XXX code associated with a particular carrier.

28. Moreover, customers already use these competitors' services. For example, many business customers use dedicated special access circuits to connect directly to IXCs, and use the IXCs for both their interLATA and intraLATA toll traffic. Other medium and large users with PBXs already program them to dial automatically so that they reach an IXC for their interstate, intraLATA toll calls.

29. Similarly, automatic dialers and speed calling offer the same capability to residential customers and small businesses. In fact, these customers can automatically dial precoded numbers in several ways. Many telephones and private switching systems already have the capacity to automatically dial precoded numbers, and separate automatic dialing devices are readily available in stores.

30. Competitive pressure has forced both a real and a

nominal reduction in the prices for the services in the interexchange basket. The Bell Atlantic interexchange basket is now priced below its cap, and has been for the last two years and for all but three months of the entire price cap period.

31. In sum, customers of these services in the interexchange basket have competitive alternatives available to them and have benefitted from competitive prices. Interstate toll and corridor services should be removed from price cap regulations.

III. HIGH CAPACITY SERVICES ARE COMPETITIVE.

32. High capacity services (all DS1 and DS3 categories in the trunking basket) are also competitive today. A DS1 circuit (1.544 Mbps) is capable of carrying 24 voice grade channels and a DS3 circuit (44.736 Mbps) is capable of providing 672 voice grade channels. DS1 service is used primarily by business customers with high volumes of traffic between their location and an IXC POP, another high volume location, or multiple sites. It is often used for corporate backbone networks and Local Area Network interconnections. DS3 service provides higher capacity voice and data circuits, which may include aggregates of DS1 traffic from multiple locations. All of the CAPs that operate in the Bell Atlantic region offer high capacity services.

33. In today's market, competition for high capacity access is intense. Revenues from the larger business customers that use these services are very concentrated. Nationwide, over 60% of large business customers rely on CAPs for at least part of their access services.

34. In the Bell Atlantic region, the concentration is even more pronounced. Today, more than two thirds of Bell Atlantic customers' demand for high capacity service comes from metropolitan areas served by competitive providers.²² Moreover, 10% of the wire centers produce 86% of the demand for DS1 and DS3 services. Therefore, by collocating in only a few wire centers, CAPs can expand their already considerable reach and virtually blanket all areas with high capacity demand within the region.

35. Moreover, CAPs' willingness to expand their networks to where customers are located, gives them the ability to offer near ubiquitous coverage for key markets. For example, Eastern TeleLogic advertises: "Unprecedented Scope: We are where you are." Penn Access offers fiber optic digital connections to every major long distance carrier "from every major Pittsburgh address."

36. This competitive pressure has had a real impact on prices. DS1 and DS3 service categories have consistently been priced below the upper limits of their service band. The local transport element which (until this year), included DS1 and DS3 transport has also consistently been priced below its price cap.

²² These areas are Baltimore; Newark (Northern New Jersey); Norfolk (Virginia Beach, Newport News); Philadelphia; Pittsburgh; Richmond (Petersburg); Trenton; Washington, D.C. (Maryland, northern Virginia, and West Virginia suburbs); and Wilmington.

Because Bell Atlantic data is limited to its own customers, these percentages for the availability of competitive alternative are likely to be low. In fact, survey results indicate that in Baltimore, Pittsburgh, Washington, D.C., and Philadelphia utilization of CAPs for high capacity service ranges between 24% and 33% of all such traffic. When these customers of competitors are factored in, total availability is much higher.