

physical and regulatory structures within which they must operate.

The second fundamental issue raised by Staff concerns the role of the Public Switched Telephone Network ("PSTN") in a competitive local exchange marketplace. Staff believes that Commission determinations regarding the local exchange and intraMSA structure in this and future proceedings will affect whether the PSTN evolves as a "single public network or instead an interconnected system of discrete, autonomous networks." *Id.* at 13-14. Staff notes that treating the network as a public network with full non-discriminatory access could create significant efficiency gains, but that both public policy and local exchange technologies will continue to evolve for years to come. Staff concludes that it would be "quite difficult at this time to predict any particular market or regulatory structure as the one that will, or should prevail." *Id.* at 14.

In setting these policies, the goal should be to move regulation of the PSTN in the direction that would encourage efficient entry and allow effective competition to develop in local exchange services, while trying not to manage the market centrally into a preconceived master plan. *Id.* at 14.

Against the backdrop of these two broad concerns, Staff recommends that the Commission adopt seven market principles to encourage efficient entry and allow effective competition for local telecommunications services.

- (1) The physical structure of the PSTN should not distinguish among carriers except where necessary based on technologies used.

Interconnections among and integration of the different entities facilities into the PSTN would use uniform rules, standards and prices available to all interconnectors, taking into account technological differences as appropriate. Uniform dialing patterns to reach the various carriers similarly would be available to all customers. *Id.* at 18, 29-30.

- (2) The PSTN should minimize artificial geographic boundaries.

This market principle ensures geographic equality throughout the PSTN. Staff acknowledges that implementing this principle would be difficult, given the substantial amount of geographic distinctions drawn in telecommunications policy today. Staff would accept some geographic distinctions to reflect differences in economic costs and certain public policy objectives. *Id.* at 18-19.

- (3) Services, elements, and functionalities of the PSTN should be made available to all willing purchasers on an unbundled basis and without unreasonable discrimination.

Under this market principle, Staff would eliminate all "end user or resale restrictions" and require all carriers to provide "any portions" of their networks to customers or competing carriers. Also, Staff would require that "[a]ll carriers would have access to rights of way, pole attachments, conduits, and any other pathways on a nondiscriminatory basis." *Id.* at 19.

- (4) Shared network and administrative functions should be maintained in a competitively neutral fashion and should be available to all qualified (e.g., certificated if needed) buyers.

Staff defines shared functions to include the North American Numbering Plan ("NANP"), universal service funds, directory assistance, the Line Information Database ("LIDB"), the 800 database, number portability databases, and potentially white pages. Under Staff's proposed market principle, these functions could be provided by neutral administrator(s) or by a single company (by state or by region). Staff also emphasizes that this principle would require rules granting protection of Customer Proprietary Network Information ("CPNI"). *Id.* at 19.

- (5) Prices should be based on, but not necessarily equal to, incremental costs, with contribution and profit levels depending on how effective competition is and the extent of continued regulatory involvement.

Staff sees a continuing need for at least some price regulation of incumbent LECs, at least until effective local competition develops. This price regulation would include imputation requirements. Staff also incorporates contribution level limits under this principle. After effective competition develops, Staff argues that "little, if any" price regulation would be needed. *Id.* at 20.

- (6) Regulatory requirements should differ among carriers only when justified.

Staff argues that many regulatory differences among existing and future service providers should be eliminated. At the same time, Staff acknowledges that some differences in regulatory requirements may be appropriate because of differences among carriers in the services they offer, market power or size. *Id.* at 20.

- (7) Any cross-subsidies deemed to be necessary for universal service should be targeted to minimize costs and funded in a manner that does not unreasonably impede competition, including entry by lower-cost providers.

Staff recommends that the Commission review existing contribution and entitlement mechanisms, and believes that such a review might reveal that "[s]ignificant rate reductions, particularly for high cost companies" are desirable. According to Staff, any remaining need for support for universal service should be funded in a competitively neutral manner. *Id.* at 21.

### Centel

Through the testimony of Mr. Philip Felice, Regulatory Manager, Centel stated that it generally agrees with Staff's seven market principles, believing that they provide "a framework to guide the Commission in developing pro-competition policies in this and subsequent proceedings." Centel Ex. 1.0 at 6-7. It recommends that the Commission attempt to implement these principles after "careful study" and on an "orderly basis over time." Centel Ex. 1.0 at 5. It recommends that the Commission not attempt to resolve all of the issues raised by AT&T and other parties, however, claiming that "it is not realistic to expect the Commission to address the remaining issues without substantial further investigation and a more fully developed record "that addresses competition in all local exchange areas." Centel Ex. 1.0 at 8, 9.

### MFS

MFS witness Ms. Susan DeFlorio, Director of Regulatory Affairs, testified that it was essential for the Commission to address in these proceedings the minimum requirements necessary to permit new LECs to provide service to their customers comparable to that provided by the LECs. MFS maintains that as a fundamental matter, the incumbent LECs must be required to treat MFS in the same manner they treat other Section 13-405 carriers. It has formulated its own list of conditions that must exist to foster local exchange market competition. They are:

- (1) Removal of legal/regulatory certification barriers to entry;
- (2) A "fresh look" policy for local services provided under contract;
- (3) Unbundled interconnection to incumbent LEC services and service elements;

- (4) Local franchise arrangements, if required, equivalent to the LECs;
- (5) Equitable access to public and private rights of way, pole attachments and conduit;
- (6) Access to building and riser capacity;
- (7) Co-carrier arrangements; and
- (8) Unbundled access to certain LEC facilities.

MFS believes that its conditions are in general agreement with AT&T's "nine conditions" and Staff's seven "market principles." MFS recommends adding a "fundamental premise" to Staff's seven market principles - that "it is in the public interest for networks of multiple carriers to connect." This premise can be realized only if the terms and conditions of network connection are fair and nondiscriminatory. MFS Ex. 1.0 at 9-10.

#### **IITA**

IITA contends that the Commission does not have sufficient record evidence to decide the issues associated with AT&T's petition. It claims that the evidence is inadequate to address issues such as universal service, co-carrier rights and obligations, and the manner in which new LECs would operate if granted the conditions to local competition they request. IITA stresses that these issues are important to IITA companies and their customers because the decisions in these dockets will have far-reaching consequences for the entire telecommunications industry. IITA Ex. 1.0 at 8-11. IITA argues that the Commission cannot make these difficult decisions without further information, and recommends that the Commission conduct a limited trial in MSA 1 of Illinois Bell's plan and AT&T's proposed conditions.

#### **Analysis and Conclusions**

There is a clear consensus that effective local exchange competition would be in the public interest because it likely would result in lower prices, expanded service choices, increased innovation, and enhanced efficiency. Furthermore, on a conceptual level, there is considerable agreement on many of the specific areas or general principles which the Commission should consider when developing policies intended to promote the development of local exchange competition. Many of the issues raised will be addressed, though not necessarily finally resolved, in this Order and in the companion rulemakings in Dockets 94-0048 and 94-0049.

We are in agreement with Centel witness Felice who states that Staff's seven "market principles" provide a framework to guide the Commission in the development of procompetition policies in this and potentially, future proceedings, and we shall adopt them. We stress however, that we will not attempt to force the establishment of policies unnaturally merely to meet these principles. It is quite possible that the application of statutory standards or other policy considerations to a specific factual record may result in policies which are not entirely consistent with some of the market principles. As Staff notes, policies should be set that allow movement toward the ideals expressed by the market principles. All steps must be taken rationally from where we are right now, in terms of technology, market structure, legal structure, customer needs and desires, and other myriad interests that the Commission must weigh and balance. Nevertheless, in exercising the degree of policymaking discretion afforded to us by law, we consider Staff's approach to provide a useful intellectual framework.

By adopting Staff's principles, we are not rejecting the principles put forward by other parties; indeed, many of those principles overlap with, or are otherwise consistent with the seven market principles. The primary differences among the parties involve the application of the principles on which specific policies should be based, rather than the principles themselves.

### **III. CUSTOMER FIRST TARIFFS**

#### **A. LINKAGE BETWEEN THE CUSTOMERS FIRST TARIFFS, THE RULEMAKING PROCEEDINGS AND INTERMSA RELIEF**

##### **Positions of the Parties**

##### **Illinois Bell**

Mr. Richard P. Kolb, Illinois Bell's Director - State Regulatory, provided an overview of the Customers First plan. IBT Ex. 2.0.<sup>4</sup> The terms of the proposed tariff expressly provide that the services will be available only in exchanges where Illinois Bell offers intrastate and interstate interLATA services. Under the MFJ, Illinois Bell is not permitted to offer interLATA services absent relief from the restriction by order of the U.S. District Court. Illinois Bell does not propose to implement the Customers First plan tariff unless and until it obtains approval

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<sup>4</sup>Citations to exhibits filed in this proceeding will refer to the initials of the party, the exhibit number as introduced at the evidentiary hearing, followed by the page reference, if appropriate. Citations to pages in the hearing transcripts shall be referred to simply as "Tr.," with a page reference.

from the United States District Court with jurisdiction over the MFJ, or from the United States Congress, of its request to offer interLATA services. IBT Ex. 2.0 at 8. A footnote to each of the tariff pages makes clear that Ameritech will not offer unbundling, usage subscription or end-office integration prior to Ameritech's obtaining the requisite authority to provide interLATA services. Mr. Kolb stresses that "all components of the Plan must be implemented concurrently or the Plan must be withdrawn." IBT Ex. 2.0 at 9.

Illinois Bell takes the position that proposals at issue in this proceeding will, if adopted, radically transform the intraMSA marketplace. Illinois Bell contends that intraMSA presubscription, unbundling and end office integration will change the competitive positions and capabilities of the various providers significantly. Illinois Bell further argues that there is almost no regulatory experience yet in the United States that provides insight into the likely impact on incumbent carriers of the combined implementation of all three initiatives.

Illinois Bell states that intraMSA presubscription is largely untried in the United States, with the exception of a small number of independent telephone companies in a handful of rural areas. It maintains that current dialing arrangements achieve a competitive balance in the marketplace, and that this balance was recognized at divestiture by the MFJ court and subsequently by this Commission.

Illinois Bell maintains that loop unbundling is a new regulatory concept. On the one hand, it will reduce the capital barriers to entry significantly, but also will provide an unprecedented opportunity for local exchange competitors to "cream skim" without having to make any capital investment in loop plant and, thereby, any contribution to infrastructure development. Illinois Bell states that the issue of end office integration and co-carrier status for facilities-based competitive local exchange providers also is new.

Illinois Bell contends that there is a strong customer preference today for coordination and consolidation in the provision of telecommunications services -- "one-stop shopping". First, many customers prefer to be served by a company that can serve all their telecommunications needs, for both local and long distance services. Illinois Bell submitted a survey conducted by Communications Workshop, Inc. ("CWI") According to the testimony of Mr. Jerry W. Dunn, President of CWI, the survey demonstrated that, of the respondents expressing an opinion, approximately 59% stated a preference for a local exchange company that provided local and long distance services, in contrast to the current

arrangement; this percentage increased to 82% if a 5% - 10% discount from the incumbent carrier's rates were offered. IBT Ex. 9.0 at 3.

Illinois Bell argues that its competitors can provide precisely this full range of services. MFS for example, offers basic access lines; central office features; directory assistance; local and intraMSA calling; operator service; 800 service; and interMSA calling service, including interstate and international calling. Illinois Bell contends that MCI has the potential to provide one-stop shopping, whether it is offering service directly as in the Wheaton, Illinois trial or through its wholly owned subsidiary, MCI Metro; and as the second largest interMSA carrier with a \$2 billion commitment to the local exchange business would be a formidable full service provider. Illinois Bell states that AT&T also could enter the intraMSA market quickly on either a facilities or resale basis, particularly with the availability of unbundled loops. Illinois Bell argues that, to the extent that its current inability to offer interMSA services induces entry that otherwise would not occur or causes customers to switch to providers that would not be successful in a more balanced competitive environment, the Commission is encouraging uneconomic competition.

Illinois Bell also states that many customers today have a strong preference for having one company handle all of their "toll" calls. The Company also argues that discount plans offered by carriers which provide both interMSA and intraMSA calling allow customers to aggregate all of their usage under one schedule, providing them with rate advantages with which Illinois Bell will be unable to compete if it can offer discounts based only on the volume of intraMSA calls.

Illinois Bell states that its experience in the large customer market proves that the financial risks of unbalanced competition are serious. Based on studies performed by Quality Strategies, the Company has lost to competitors over 40% of the toll revenues generated by medium and large business customers in Illinois even without intraMSA presubscription. Illinois Bell says this occurred despite the fact that Illinois Bell's toll rate schedule is lower than those of the interexchange carriers. Illinois Bell further notes that, once IXCs began to offer combined intraMSA and interMSA 800 services in competition with Illinois Bell's geographically limited service, its 800 service revenues plummeted from \$39.8 million in 1987 to \$15.1 million in 1993. Similarly, its WATS revenues declined from \$10.3 million in 1986 to \$1.8 million in 1993.

Illinois Bell contends that, because of the substantial competitive advantage that would be conferred on its competitors,

it faces a significant risk of financial harm if the Customers First Plan initiatives are implemented prematurely before interMSA relief has been granted. If those customers who prefer one-stop shopping were to change providers because of Illinois Bell's inability to provide a complete package of services, the Company states that it could lose up to \$500 million in revenues. Interexchange carriers can reach all of its customers today and competitive local exchange providers now have practical access to business customer revenues estimated at approximately \$100 million per year. Illinois Bell further notes that customers and revenues in Illinois Bell's service territory are highly concentrated and, therefore, are relatively easy for competitors to target. For example, business customers comprise just 13% of all present Illinois Bell accounts, but generate 42% of all customer revenues; the top 2% of business customers generate about 54% of all current business account revenues. IBT 1.0 at 11. Similarly, the top 10% of Illinois Bell's wire centers account for 37% of its total revenues and the top 20% account for 62% of all revenues. Illinois Bell contends that MFS and TCG have entered primarily these high revenue - producing wire centers and therefore, could significantly impact Illinois Bell even with relatively small networks.

Illinois Bell further states that the economic consequences of creating unbalanced competition also extend to the costs and design of Illinois Bell's network. Routing traffic to IXCs and competitive local exchange providers requires significant network rearrangements. Illinois Bell argues that the construction of new facilities would be economically warranted only if the IXC or competitive LEC actually is a more efficient provider of service. However, if a customer's decision to change providers is based only on artificial limitations on the services Illinois Bell can provide relative to its competitors, then Illinois Bell contends that the construction of new facilities is economically wasteful and ultimately could burden the Company with stranded facilities.

Illinois Bell states that financial harm to the Company would result in adverse consequences to ratepayers. Illinois Bell contends that reduced earnings would make it more difficult for it to raise capital to maintain and grow its network and ultimately could impair universal service. Even with competitive entry, Illinois Bell states that it will continue to play a critical role in providing service on an ubiquitous basis to all subscribers in the state for a long time to come. Illinois Bell also states that it has unique responsibilities in the "network of networks", permitting its competitors to access the public switched network and the customers of all other providers. Illinois Bell argues that adoption of regulatory plans that place it at an artificial competitive disadvantage ultimately will constrain its ability to upgrade network infrastructure, reduce the benefits otherwise expected from price regulation and divert capital dollars from

network modernization that would provide a net benefit to the State of Illinois.

### Staff

Staff recommends that the Commission require Illinois Bell to modify its Customers First tariff filing to remove the linkage condition tying unbundling, interconnection, reciprocal compensation, and intraMSA presubscription to interLATA relief. Staff Ex. 1.00 at 71. Staff witness TerKeurst, states that the issue of whether the intraMSA portions of the Customers First plan would be adequate to justify interLATA relief is not an issue before this Commission and should not be addressed in this proceeding. *Id.* at 71-72.

With regard to Illinois Bell's assertions of financial harm, Staff notes that the "one-stop shopping" argument is without merit because Illinois Bell's intraMSA presubscription proposal would retain a significant area within which calling would not be subject to presubscription, thus precluding IXCs from providing a complete package of usage services. *Id.* at 72. Staff further contends that Illinois Bell's market share losses resulting from intraMSA presubscription may not translate into equivalent earnings losses because intraMSA presubscription is likely to be of most use to residential and smaller business customers, who tend to be less profitable customers. Staff notes that Illinois Bell has failed to provide any actual data or market projections about the amount of competition expected as a result of unbundling, interconnection and reciprocal compensation. Staff further argues that, if competition were really to thrive, it could be just the trigger Illinois Bell has been looking for in terms of convincing the Court and/or Congress that the time has come for interMSA relief.

Staff believes that Dr. Harris' arguments about cream skimming would apply independently of interLATA relief and recommends certain steps (e.g., rate design changes and pricing flexibility) to reduce inefficient competition that do not require or relate to interLATA relief. *Id.* at 73. Staff disagrees with Illinois Bell's view that basic rates could increase if Illinois Bell is not allowed to enter lucrative interLATA markets. According to Staff, this contention runs directly counter to the price cap regulatory mechanism that the Commission adopted in Docket 92-0448. *Id.* Under price caps, residential basic rates are capped and business basic rate increases are limited to those set by the price cap formula. Because Illinois Bell indicated its intent to classify its intrastate interLATA toll services as competitive, none of its interLATA toll revenues would be available to affect the operation of the intrastate price cap mechanism (absent earnings sharing). Finally, Staff notes that, to the extent interLATA relief would allow Illinois Bell to operate more efficiently, the resulting

benefits would flow directly to shareholders rather than customers under the price cap mechanism we adopted in Docket 92-0448. *Id.* at 74.

Staff also disagrees with Illinois Bell's claim that local exchange competition without interLATA relief would result in a net reduction in state infrastructure investment, emphasizing that interLATA entry by Illinois Bell could decrease the incentive for interexchange carriers to expand capacity in the state. *Id.* Staff sees no indication that the Act contemplated making increased competition in Illinois contingent on interstate developments. Staff cites Section 13-103(b), which establishes a policy supporting competition to the extent it is in the public interest; Section 13-405, allowing certification of new providers of local exchange service, with no linkage to interLATA relief for Illinois Bell; and Section 13-505.5, requiring provision of noncompetitive services by LECs when in the public interest, again with no interLATA linkage. *Id.*

Finally, Staff notes that Illinois Bell did not argue for linkage by claiming that increased intraMSA competition would not be in the public interest. Rather, Illinois Bell and other parties have in fact recognized that increased intraMSA competition can have significant public interest benefits. *Id.* Staff concludes that Illinois Bell's request for interLATA linkage should be denied. *Id.* at 74-75.

#### **AT&T**

AT&T takes the position that intraMSA equal access is a "necessary but not a sufficient condition to allow MFJ restrictions on Illinois Bell's participation in the interMSA market to be lifted." It contends that removal of that restriction by the federal court is dependent upon a demonstration that the local exchange bottleneck no longer provides Illinois Bell with the ability to affect competition adversely in the interMSA marketplace. AT&T states that there are several barriers to local exchange competition that must be removed before effective competition can develop. These barriers must be eliminated, substantial competitive entry and market share inroads must occur and competitors need to be positioned to handle significant business volume increases before Illinois Bell could be considered for entry into the interMSA marketplace. To address the issue of competition AT&T identified nine conditions that must be adopted before effective exchange competition could develop.

AT&T states that competition should be fostered unconditionally for its public benefits and should not be made subject to Illinois Bell's attempts to obtain legislative or judicial modification of federal antitrust laws and decrees. AT&T

witness John J. Puljung, AT&T District Manager - State Government Affairs, rebutted Illinois Bell's contentions that it will suffer substantial financial harm if unbundling, interconnection-/reciprocal compensation and intraMSA presubscription are offered to competitors prior to Illinois Bell's gaining interLATA relief. AT&T observes that Illinois Bell has a substantial advantage in competing for high-volume customers because of its superior, detailed market information.

Contrary to Illinois Bell's assertions, AT&T notes that the size, competence and sophistication of potential competitors currently providing service in other markets does not necessarily translate into the ability of those firms to compete in the Illinois local exchange market.

Regarding one-stop shopping, AT&T said that there will not be one-stop shopping for any market participant since there is no common service provider for local service, intraMSA and interMSA toll service. AT&T maintains that because residential customers are unlikely to have local service alternatives as a result of the Customers First Plan, Illinois Bell could use one stop shopping and MFJ relief to leverage a continuing monopoly over the local service residential customers into a dominant interLATA service position. AT&T does not agree that the inability to offer interMSA service puts Illinois Bell at a competitive disadvantage when competing for intraMSA toll traffic. It also states that the aggregation of interMSA and intraMSA calling does not disadvantage Illinois Bell since Illinois Bell can offer volume discounts on intraMSA calling and can sustain lower prices than IXCs because IXCs must purchase access services from Illinois Bell. AT&T further states that the "one-stop shopping" surveys on which Illinois Bell and GTE depend for the conclusion that customers prefer service from a single provider does not address other factors that would influence a customer's choice of carrier, such as willingness to change telephone numbers, quality of service, customer loyalty, customer relations, and availability of vertical services. Because of its limited focus on one factor influencing customers' choice of service provider, the survey does not and cannot determine whether customers' preference for a single service provider will translate into loss of market share or revenues for Illinois Bell. AT&T Ex. 1.1 at 8-13.

AT&T does not agree that Illinois Bell will be disadvantaged financially and that customer rates will be affected adversely by the implementation of intraMSA presubscription. AT&T contends that the estimate of \$500 million is an estimate of gross revenues that would be lost if competition developed and Illinois Bell could not compete effectively, claiming that it does not reflect increased

revenues from access services and unbundled loops and ports, or savings from not providing services that are taken over by competitors or usage stimulation.

Finally, AT&T notes that concerns about the impact on universal service of local exchange competition without interLATA entry for Illinois Bell are speculative and premature. Such concerns can be addressed, if necessary, through implementation of a competitively neutral universal service subsidy mechanism. *Id.* at 14.

### MCI

MCI's position is that the Customers First plan should be rejected because it would introduce new barriers to entry and also would endanger the competitiveness of the interLATA market. MCI Ex. 1.2 at 3. MCI witness Goldfarb states that Illinois Bell's argument that it should receive interLATA authority before being required to provide unbundling, interconnection, reciprocal compensation and intraMSA presubscription in order to reduce the risk of adverse financial impact on Illinois Bell is a form of "protectionism" for Illinois Bell and as such is inconsistent with a competitive marketplace. MCI Ex. 1.1 at 3-6.

MCI contends that, by linking MFJ relief to its plan, Illinois Bell is denying end-users the benefits of competition and lower prices, customer responsive services, and a powerful network architecture while attempting to secure its own financial interests. MCI argues that interMSA relief cannot be granted by the ICC, is not linked logically to local competition, and should be granted only upon a demonstration that the LEC could not use its monopoly pricing to disadvantage interMSA competitors unfairly.

MCI states that competition is extremely limited in the intraMSA market today. In order to establish true competition MCI recommends adoption of eight prerequisites. Even after fulfillment of these prerequisites, MCI maintains, competition will not develop automatically. Sufficient identification of LEC provisioning responsibilities and monitoring of competition should be maintained. Based on its study, "The Enduring Local Bottleneck", MCI claims that LECs will maintain a dominance over essential local exchange facilities for the next five to ten years.

### Sprint

Sprint, through the testimony of Mr. Mark Sievers, opposes Illinois Bell's "linkage" of MFJ relief to the local competition elements of the Customers First plan. Mr. Sievers discusses the criteria for lifting the MFJ interexchange restriction and maintains that Illinois Bell will not be able to meet these

criteria even if all of the other elements of the plan were implemented because Illinois Bell still would have control over local bottleneck facilities and would have the ability to use that control to impede competition. Sprint Ex. 1.0 at 4-37.

Sprint also asserts that Illinois Bell's exchanges are not subject to effective local exchange competition today and argues that Illinois Bell's plan will not permit such local exchange competition to develop because it does not ensure nondiscriminatory and cost-based access, provide full number portability, or remove cross-subsidies. Sprint Ex. 1.0 at 37-50. The plan limits resale, allows Illinois Bell to discriminate against IXCs, gives Illinois Bell superior access to customer information, does not provide full number portability, and does not fully unbundle local services. Sprint contends that Illinois Bell's claim of potential financial harm is a red herring, as many telecommunications companies bear common carrier responsibilities within the context of competition. Sprint Ex. 1.1 at 7-10. It argues that effective local competition should be a prerequisite to Illinois Bell's entry into the interexchange business. Sprint Ex. 1.1 at 14-15.

#### MFS

MFS witness Ms. Susan DeFlorio states that the Customers First plan is "fatally flawed" because it conditions the provision of co-carrier arrangements (e.g., interconnection/reciprocal compensation arrangements) on the removal of interLATA restrictions. MFS believes that this condition undermines the Commission's ability to implement effective local exchange competition because the Commission has no jurisdiction over the interLATA restrictions imposed by the MFJ. MFS Ex. 2.0 at 13.

MFS rejects Illinois Bell's contention that linking local exchange competition to interLATA relief is necessary to create a "level playing field," and instead predicts that it would create a significant imbalance in favor of Illinois Bell. It cites the ease of entry into the interLATA market, the incumbent LECs' existing relationship with nearly all customers, the incumbent LECs' control of their ubiquitous networks, and the ability of LECs alone to allow customers to retain their current telephone numbers as enabling Illinois Bell to leverage its local monopoly power into the interLATA market. In contrast, potential local exchange service competitors face substantial regulatory barriers to entering the local service market, limited access to customers, and an inability to offer customers true number portability -- all of which present barriers that prevent any potential local service competitor from leveraging its position in any other market in a manner that would seriously threaten Illinois Bell's dominant position in the local exchange market. MFS concludes that Illinois Bell's plan, rather than creating a level playing field, would tilt

the field so that the company can leverage its local exchange monopoly into a dominant position in the interLATA market. *Id.* at 14-17.

As a result, MFS recommends that the Commission require Illinois Bell to revise its Customers First tariff to remove various anti-competitive elements and include various co-carrier arrangements. MFS Ex. 2.2 at 3.

#### TCG

TCG disagrees with Illinois Bell's "linkage" of implementation of its unbundling, trunk-side interconnection, and reciprocal compensation proposals to MFJ interLATA relief. TCG argues that there is no date certain to consider these issues and that adopting the linkage in Illinois Bell's plan would delay implementation of exchange competition in Illinois needlessly. TCG Opening Brief, at 23-25.

#### GTE

GTE generally supports the concept of linking intraMSA and local exchange competition issues to removal of interLATA restrictions. GTE Ex. 1.00 at 48. GTE witness Beauvais states that removing barriers to entry into the interMSA market are just as important as removing the barriers to participation in the local exchange or intraMSA market. In this sense, GTE supports Illinois Bell's plan. *Id.*

GTE also conducted a study investigating consumer willingness to pay for intraMSA presubscription, the impact on market share and revenues of the firms, and the costs of implementation in Illinois.

GTE contends that the results of its study are consistent with the results presented by Illinois Bell witness Young. Based on the results of its study, GTE concludes that if GTE cannot offer customers a combined inter- and intraMSA toll package, when IXCs may do so, the potential for the erosion of LEC market share is significant. The key factor in customer decision-making is price, and the ability of IXCs to offer combined inter- and intraMSA toll is critical. GTE points out that neither the IXCs nor Staff have submitted any empirical evidence of market share or revenue loss likely to result from intraMSA presubscription without interLATA relief. Therefore, GTE recommends that entry of IXCs into the intraMSA market on a 1+ basis be linked with the entry of GTE into the interMSA market. GTE Ex. 1.00 at 8. GTE emphasized that it was necessary for it to provide interMSA toll service in order to bring more effective competition to the interMSA market and to maximize consumer benefits.

**LDDS**

LDDS argues that the conditions necessary to promote local exchange competition be put in place independent of the interLATA relief issue. It contends that Illinois Bell's request for interLATA relief is premature until safeguards are shown to be effective in preventing discrimination and in promoting customer choice. (LDDS Ex. JPG 2.0 at 11-12) It claims that local competition will be a process of trial and error, with the outcome very much in doubt. LDDS states that, in contrast, Illinois Bell's path as a long distance carrier is well marked. Illinois Bell need only replicate others' actions or simply extend its own interexchange operations beyond the MSA boundary.

**IITA**

IITA contends that the Commission does not have sufficient record evidence to rule on the issues associated with Illinois Bell's Customers First plan. It claims that the evidence is inadequate to address such issues as universal service, co-carrier rights and obligations, and the manner in which new LECs would operate if granted the conditions to local competition and/or revisions to Illinois Bell's plan that they request. IITA stresses that these issues are important to IITA companies and their customers because the decision reached in these dockets will have far-reaching consequences for the entire telecommunications industry. IITA Ex. 1.0 at 8-11. It argues that the Commission cannot make these difficult decisions without further information, and recommends that the Commission conduct a limited trial in MSA-1 of Illinois Bell's plan and AT&T's proposed conditions.

**CUB**

CUB opposes Illinois Bell's proposed "linkage" of its Customers First plan to interLATA relief, contending that it would frustrate competition. Dr. Mark N. Cooper, President of Citizens Research, testified that Illinois Bell, through its monopoly local exchange position, already has an "immense economic, transactional and marketing advantage" over its local competitors. If LECs do not face actual, effective competition in local exchange service before the interLATA market is opened up to them, they will leverage their ability to provide bundled local and long distance service.

Dr. Cooper asserts that the first stop in one-stop-shopping for telephone service is local service. It is the crown jewel in the bundle that will attract and cement a huge artificial market share for the LECs, undermining prospects for effective competition at the local level (by making scale of necessary entry larger) and for greater competition at the interLATA level (by undermining smaller competitors in the long distance market). He says this

suggests that the Commission should move to create local competition as soon as possible. CUB 2.0 at 2-6.

### CTCA

CTCA also opposes Illinois Bell's "linkage" of local competition to interLATA authority, arguing that the Commission lacks a statutory basis for considering this issue. CTCA also agrees with other parties who maintain that Illinois Bell has failed to prove that it needs interLATA relief to compete in the local exchange market. CTCA Opening Brief, at 3-6. CTCA argues that it would be contrary to the public interest to postpone local competition in Illinois to wait for federal MFJ action. CTCA Opening Brief, at 6-9.

### Attorney General

The Attorney General argues that the Illinois Bell tariffs under suspension until March 15, 1995 [sic] should be cancelled because the interLATA condition in the tariffs is contrary to the requirements of Sections 9-101, 9-102, and 9-201 of the Act. Neither Illinois Bell nor any other Illinois Bell subsidiary will be providing interLATA service by March 15, 1995 and Illinois Bell will continue to be prohibited from providing such service as of that date. The AG notes that Illinois Bell's own timetable estimates suggest that interLATA service approvals and implementation would occur, if at all, no earlier than October 1995 or as late as January 1996. AG Initial Brief at 4, citing Tr. at 308-309, 313-314, 687-689. Thus, no actual services would be rendered or offered to the public on the effective date of the tariffs. The lack of a date certain in the tariff is the antithesis of the Section 9-201 requirement that tariffs state "the time when the change will go into effect" and the Section 9-102 requirement that tariffs for public inspection show "all rates and other charges, and classifications, which are in force at the time for any product or commodity furnished or to be furnished by it." [emphasis supplied]. Illinois Bell's Customers First tariffs would be unlawful by virtue of being hypothetical in nature, technically premature, and substantively deficient.

The AG concludes that the Commission should move forward with the two rulemaking proceedings (Dockets 94-0048 and 94-0049) and require Illinois Bell to file new tariffs in conformity with the rules approved by the Commission.

### Illinois Bell Response

Illinois Bell argues that the other parties generally ignore the competitive imbalance that would result from premature implementation of the Customers First Plan, the impact on service

to end users, and the fact that this cannot be considered in isolation from the MFJ restrictions.

Illinois Bell says the issue in this case is not whether steps should be taken to accelerate intraMSA competition but, rather, when they should be taken and how radical they should be. It argues that there will be ample opportunity to take additional steps later as the marketplace develops. This is undoubtedly just the first of a series of orders that will determine the "rules of the road" for local exchange competition.

It argues that Staff's position that it had not proved that there would be financial harm was misplaced. The Company states that it would be impossible for Illinois Bell to prove exactly what level of financial harm it will experience, because the marketing plans of the IXCs and the competitive LECs are not available publicly. It states that it has demonstrated that there is a substantial risk of serious financial harm from implementation of these new initiatives prior to the grant of interMSA relief. Although price regulation means that revenue shortfalls due to competition cannot be flowed through to ratepayers in the revenue requirements process, Illinois Bell argues that there is a very significant difference between competitive losses that result from the normal functioning of a competitive marketplace and losses that result from regulatory asymmetries.

Illinois Bell states that AT&T's claims that it likely would not be harmed because of offsetting revenues from other services and because of possible growth in the overall market due to competitive entry are greatly overstated. Carrier access revenues likely will be less than the retail revenues the Company otherwise would have received and many of the services provided by competitive LECs will result in a complete revenue loss to Illinois Bell. Furthermore, Illinois Bell states that there is no reason to believe that the growth experience in the interMSA market at divestiture would be repeated in the intraMSA marketplace.

Illinois Bell also argues that AT&T's claim that Illinois Bell could compete with the combined discounts of the IXCs on its intraMSA toll traffic alone ignores the effect of consolidating all usage under a single discount schedule and the bigger revenues base across which the IXCs provide discounts. Illinois Bell also argues that AT&T's claims that Illinois Bell can sustain lower rates on its intraMSA calls than the IXCs because the IXCs must pay access charges ignores the fact that Illinois Bell must impute access charges to itself in establishing its intraMSA usage rates. Illinois Bell also disputes AT&T's and MCI's claims that Illinois Bell has unique advantages in the intraMSA market that more than outweigh the interMSA handicap. Illinois Bell contends that the IXCs collectively have account relationships with all of its

customers by virtue of being their interMSA carriers, have brand recognition second to none as a result of national advertising campaigns and can reach customers through marketing campaigns such as MCI's "Friends and Family", AT&T's "True USA" and Sprint's "the Most".

Illinois Bell contends that the arguments of AT&T, MCI and Sprint that linkage should not be approved because interMSA relief should not be granted at all are not relevant to the issue before the Commission and are based on faulty premises. Illinois Bell points out that the question whether Illinois Bell should receive a waiver of the current interMSA restrictions in the MFJ will be decided at the federal level and that the views expressed by the AT&T, MCI and Sprint witnesses are disputed by many prominent economists. Moreover, the IXCs concerns about dire consequences should Illinois Bell enter the interMSA marketplace are based on no empirical study whatsoever of the behavior of any of the LECs that have been permitted to offer both local and interMSA services.

Illinois Bell disagrees with those parties that contend that the Commission may not consider the linkage issue because it does not have the legal authority to lift the interMSA restriction in the MFJ. Illinois Bell states that the Commission has ample authority to consider the broad regulatory and competitive environment in which Illinois Bell operates, regardless of whether it has jurisdiction over all of the competitors and competitive factors which shape that environment. It states that it is not asking the Commission to rule on any issue outside its jurisdiction, but merely to consider the fact of the interMSA restriction when determining the proper timing of implementation of the Customers First initiatives.

### Conclusion

Illinois Bell's interMSA linkage condition was perhaps the most vigorously contested issue in this proceeding. This is not surprising because the issue has potentially far reaching implications and goes to the very purpose of this proceeding. After careful reflection and extensive deliberations on this matter, the Commission concludes that it cannot approve of the linkage condition in Illinois Bell's proposed tariffs.

For Illinois Bell, the Customers First Plan represents a multi-jurisdictional proposal which has, as its centerpiece, the removal of the interMSA line of business restriction in the MFJ. It is agreed that this Commission does not have the jurisdiction to grant Ameritech/Illinois Bell the interMSA relief it seeks. However, we believe it would be appropriate to set forth at this time the Commission's position on the interMSA restriction.

Substantial changes in the telecommunications markets and in regulation have occurred throughout the nation. We believe that these changes have been particularly notable in Illinois, and the policies we are establishing in these proceedings will continue that process dramatically. We therefore support a critical reassessment of federal telecommunications policies, including consideration of the advisability and continued need for the interMSA restrictions contained in the MFJ. We are gratified to note that the U.S. Congress appears to be contemplating a comprehensive review of federal communications law. We are hopeful that Congress will recognize the vital importance of permitting the states to develop telecommunications regulatory policies best suited to the needs of its citizens.

With respect to the Customers First initiative currently pending before the U.S. District Court - the federal counterpart of the proposals we are considering herein - we note that the request turns upon a determination under federal antitrust law. Specifically, a line of business restriction in the MFJ will be removed upon a showing by the Bell Operating Company (i.e., Ameritech) that there is no substantial possibility that it could use its monopoly power to impede competition in the market it seeks to enter. It is important to note that in this proceeding we have not evaluated the effect of Illinois Bell's Customers First proposals with respect to this issue, nor would it have been appropriate for us to do so. Furthermore, the adoption of specific policies, and the determinations made in this Order, have not been based on that consideration. However, if the federal court deems it appropriate, the Commission would not object to the selection of Illinois or a selected geographic area within the state as the site for a trial such as that proposed by Ameritech. The terms and conditions of the trial must, of course, be fully consistent with our Order in this proceeding and any subsequent orders of the Commission.

Although the interLATA issue discussed above is certainly significant, Illinois Bell's emphasis on the issue needlessly detracts from the fundamental importance of this proceeding for the citizens of Illinois. In essence, Illinois Bell's linkage condition asks that this Commission suspend critical regulatory initiatives and determinations for an indefinite period of time pending an affirmative decision - in other forums - regarding Ameritech's request for relief from the interLATA restriction. For a number of reasons we must firmly decline to do so.

The Universal Telephone Service Protection Law became effective in 1986. Section 5/13-405 authorized the issuance of a certificate of exchange service authority to more than one telecommunications carrier within an exchange effective January 1, 1989. As noted in our introduction, only in the past year has the

Commission received, and entered orders approving, applications for exchange certificates for new LECs.

Section 5/13-405 identifies the exclusive statutory criteria for approval of exchange certificates. The statute does not condition the exercise of those certificates, or the Commission's development of policies related to them, on any other fact or event. Section 5/13-402.1 demonstrates that the General Assembly is fully informed as to federal telecommunications law, and will enact such measures to respond to anticipated or potential changes in federal law as it deems appropriate.

As shown in Part I, and further developed elsewhere in this Order, the parties have identified an extensive series of issues related to the introduction of competition in the local exchange. The actual issuance of an exchange certificate to a new LEC creates a regulatory imperative to address many of these issues. For example, at a bare minimum, if a new LEC's certificate is to have any meaning, it is vital to develop interconnection and compensation policies governing the relationship between the new LEC and the incumbent LEC. Regardless of the financial resources or technical capabilities new LECs may have, the Commission is persuaded that they face a formidable challenge to compete with incumbent LECs. That challenge would become insurmountable if we were to cast them into a regulatory and marketplace limbo, as approval of the linkage condition surely would do.

Staff correctly points out that the presubscription and interconnection rulemaking heard simultaneously with this consolidated docket, continue pre-existing policy initiatives of the Commission. Illinois Bell has not presented a compelling argument for holding those initiatives in abeyance, or otherwise deferring resolution of the numerous issues necessary to accommodate the emergence of local exchange competition.

We do anticipate that Illinois Bell and other incumbent LECs will, over time, suffer some loss of their expected revenue which can be attributed to the policies we are adopting. That is a normal consequence of introducing or enhancing competition in the marketplace. However, we believe that Illinois Bell's and GTE's assertions regarding the magnitude of the financial impact are greatly overstated. Furthermore, they have not established an adequate nexus between the corporate financial harm they assert and the accomplishment of the goals and objectives of the Act. Under no circumstances do we agree that the reasonably anticipated financial impact of these reforms, individually or cumulatively, creates a risk to universal service or calls into question the continued ability of these firms to meet their commitments and obligations.

We agree with Staff that much of Illinois Bell's regulatory symmetry arguments are only relevant with respect to intraMSA presubscription. For example, Illinois Bell has provided little persuasive evidence linking several specific key policies under consideration here - unbundling, interconnection, and reciprocal compensation - to the financial harm it fears, and specifically to the need for interMSA relief.

Illinois Bell and GTE have failed to demonstrate that new entrants into the local exchange market will have an overwhelming competitive advantage relative to incumbent LECs attributable to their ability to engage in joint marketing of local, intraMSA, and interMSA telecommunications services. We do not believe that the customer surveys offered by Illinois Bell and GTE provide a sufficiently reliable basis for assessing these companies' risk of customer and revenue loss. AT&T identified a number of factors which significantly affect a customer's choice of carriers and which were not reflected in the surveys. A number of parties have offered compelling evidence that Illinois Bell and other incumbent LECs will retain several important competitive advantages in the local exchange market even after the implementation of policies and rules designed to foster local competition.

The financial impact of presubscription will be moderated by several factors. Incumbent LECs will begin the intraMSA equal access process with 100% of the customers. This allows the LEC to benefit from customer inertia - the propensity of a customer to stay with his current provider of service. The definition of the calling area subject to presubscription, as proposed in the Docket 94-0048 rulemaking, ensures that no vendor will be capable immediately of providing true end-to-end services - local, intraMSA toll, and interMSA toll - for all customers. Finally, under the terms of our Interim First Notice Order in Docket 94-0048, presubscription will not be implemented immediately. The interim period may well be sufficient for federal authorities to consider any request for relief from the interMSA restrictions.

Staff cited the consumer benefits it expected to flow from implementation of intraMSA presubscription, including greater consumer choice, lower prices, and innovative products and services. We expect the same, if not greater, benefits to arise from the operations of the new LECs, but this will occur only if reasonable regulatory policies are in place which permit them to effectuate their certificates meaningfully. A significant portion of the remainder of this Order deals with the steps necessary to accomplish that task. Illinois Bell's linkage condition constitutes an unreasonable intrusion upon the intent of the General Assembly and the Commission's lawful authority to establish policies which are in the public interest because it would defer indefinitely effective resolution of these matters. We therefore

find that the linkage condition found in the Illinois Bell tariffs is unjust, unreasonable and contrary to the public interest; it must be removed. Having made this determination, it is unnecessary for us to rule upon whether the linkage condition would be consistent with the technical requirements of Sections 5/9-101 and 5/9-201 of the Act.

## B. UNBUNDLING

Positions of the Parties:

### Illinois Bell

In its Customers First plan, Illinois Bell is proposing to offer portions of its current network access line ("NAL") in an unbundled and separately available manner. More specifically, Illinois Bell proposed to offer two services, the "loop" and the "port," which could be purchased and in combination used in lieu of its current bundled NAL. Utilizing an unbundled loop with an unbundled port would provide customers the same functionality as the NAL. (IBT Ex. 1.0 at 15).

In addition, Illinois Bell's unbundled network elements proposal also would allow customers to purchase loops in bulk, over a contracted period of time, at a discount from the one-at-a-time rate through its "local transport facility" ("LTF") offering. (IBT Ex. 6.0 at 10).

Illinois Bell defined its loop offering in the following manner:

A loop consists of a transmission path between the network interface located at the customer's premises and the main distributing (or other designated) frame in a Company central office. Loops are defined by the electrical interface rather than the type of facility used. (Illinois Bell proposed tariff, ILL. C.C. No. 5, Part 2 - Section 26, Original Page 2).

Illinois Bell proposed to offer its loop services in either an analog or a digital format at the request of the customer. Customers would be able to request any of the following loop types: 2-wire analog interface, 4-wire analog interface, electronic key line interface, 4-wire 64 kb/s digital interface, 2-wire 160 kb/s digital interface, and 4-wire 1.544 Mb/s digital interface. (Illinois Bell proposed tariff, ILL. C.C. No. 5, Part 2 - Section 26, Original Page 2).

Also included in Illinois Bell's loop proposal are rates for each of the loop types listed above and differentiated by Illinois

Bell's access areas A, B, and C which are used today in order to distinguish between its current NAL services.

Illinois Bell defined its port offering in the following manner:

A port consists of the central office switch hardware and software required to permit customers to transmit or receive information over the Company's public switched network.

A company-provided port provides service enabling and [sic] network features and functionality, such as translations, a telephone number, switching, announcements, supervision, and Touch-Tone capability. In addition, a Company-provided port with outgoing network access also provides access to operator services, usage, and switched access usage services.

(Illinois Bell proposed tariff, ILL. C.C. No. 5, Part 2 - Section 26, Original Page 2).

Illinois Bell proposed to offer the following port services: Basic Exchange/P.B.X., Basic COPTS, P.B.X. Ground Start, COPTS Coin, and WATS (OUTWATS).

Unlike Illinois Bell's proposed loop rates, Illinois Bell's rates for its port services are set at the same level regardless of the access area in which they are purchased.

### Staff

Staff presented its position on unbundling largely in the context of its proposed rules governing line-side and reciprocal interconnection. Mr. Michael Starkey, an Economic Analyst in the Telecommunications Program in the Office of Policy and Planning, and Mr. S. Rick Gasparin of the Staff's Telecommunications Department, testified on these issues for the Staff.

Staff believes that the manner in which Illinois Bell has structured its loops and ports would benefit interconnectors. Illinois Bell's proposed loop and port offerings are engineered in much the same manner as proposed in Staff's line side interconnection rule. Staff also believes that Illinois Bell's proposed loop and port tariffs would comply with the technical provisioning of loops as it is included in the proposed rule and recommends that those sections of Illinois Bell's proposed tariff incorporating the definition and technical provisioning of loops and ports be approved.

Staff however, believes that Illinois Bell's proposed "unbundled loop" does not sufficiently unbundle its local exchange

distribution networks. Staff contends that there are many logical connection points within the loop where copper wires are aggregated at a great distance from the central office, and that new LECs might find it profitable to use only portions of loops to provide service. Staff therefore proposes that Illinois Bell be required to provide unbundled "loop subelements" pursuant to a *bona fide* request and waiver process established in Staff's proposed rules. Staff Ex. 2.01 at 17-20; Staff Ex. 2.01 at 24. Staff asserts that its proposal to require "loop subelement" unbundling, which is implemented in its proposed line-side interconnection rules, is comparable to the "building blocks" proposals of MCI, AT&T and others. Staff Ex. 2.10 at 51.

Staff believes that Illinois Bell's objections to loop subelement unbundling are "regurgitations of previous arguments used by both AT&T and the Regional Bell Operating Companies (RBOCs) since before divestiture." Staff Ex. 2.01 at 25. It claims that these concerns can and will be addressed sufficiently if loop unbundling is required by the Commission, just as the Bell System's objections to CPE interconnection, equal access, and the like, were addressed after they were required by regulators. Staff also asserts that Illinois Bell's objections are shortsighted and fail to account for how the network would be reengineered through loop unbundling. Staff Ex. 2.01 at 25-28.

#### AT&T

AT&T witnesses Puljung and Mr. Scott A. Radcliffe, Manager in AT&T's Network Services Division, Access Management Division, presented AT&T's unbundling recommendation. Unbundling - "the identification and disaggregation of physical bottleneck components of the local exchange network in to a set of 'piece parts'" - is essential to the development of local exchange competition, they assert. Unbundling assists new LECs by allowing them to combine those portions of the local exchange that they can produce with the parts they cannot to provide competing local exchange service. Since the local exchange network is still a monopoly, AT&T explains, it is necessary to determine whether all or only parts of the local exchange can be competitively provided. Unbundling also ensures that new LECs are not required to purchase any more services and functionalities than they require to provide competing service, thereby keeping a new LEC's costs equal to the LEC network functionalities that it employs. Thus, AT&T contends that the local exchange must be fully unbundled and its basic network components made available to other providers to ensure that exchange competition can develop. AT&T Ex. 1.0 at 17; AT&T Ex. 4.0 at 2-3; AT&T Ex. 4.1 at 4; see also AT&T Ex. 3.0 at 13-14.

AT&T argues that LEC local networks must be unbundled to the fullest extent feasible consistent with financial and engineering

limitations. This unbundling must be more than the loop and port unbundling proposed by Illinois Bell and must include each logical element in the network where the exchange companies' facilities connect. This includes unbundling to the loop subelement level, and providing alternative providers access to Illinois Bell's signaling network as well as to unbundled switching and transport functions. New entrants need to be given the opportunity to use, in the same way as the incumbent LEC, each of the network components and functionalities they need, including all associated intelligence and support functions (e.g., operations, administration, maintenance, and provisioning), without having to purchase, in a "bundle", the components and functionalities they can supply themselves or that they do not need. Such bundling also would discourage competitive provision of functions that are bundled with natural monopoly components of the local exchange. AT&T Exhibit 1.0 at 17.

AT&T identifies two separate categories of basic network components: "Basic Network Functions ('BNFs') and "BNF rate elements." BNFs are the "discrete physical components of the local exchange network that can be individually provided, costed, priced, and interconnected in such a way as to provision all service offerings, including those offered by the LEC." AT&T Ex. 1.0 at 17. AT&T asserts that BNFs are the disaggregated bottleneck components of the existing local exchange that today are available almost exclusively from the LEC, and which are needed by any new entrant to provide local exchange service. According to AT&T, there are at least eleven BNFs: "Loop Distribution, Loop Concentration, Loop Feeder, Switching, Operator Systems, Dedicated Transport Links, Common Transport Links, Tandem Switching, Signaling Links, Signal Transfer Points ('STPs'), and Service Control Points ('SCPs')." AT&T Ex. 4.0 at 6-7; AT&T Ex. 1.0 at 7. BNFs can be further disaggregated into BNF Rate Elements which will allow a new entrant to create new services and call control by combining the LECs signaling facilities with the new entrant's database. "BNF rate elements" are "distinctive segments of phases of call processing/signaling which may or may not be required to complete each and every call, which may be needed by new exchange providers to offer local service, and which are not discrete physical elements that can be provided on a stand-alone basis." AT&T Ex. 4.0 at 8.

AT&T states that the specific identification of BNFs and BNF rate elements is constantly changing and can only be defined by current requirements. AT&T asserts that the degree of unbundling it recommends is technically feasible and practical, and notes that no witness disputes the feasibility of unbundling. AT&T Ex. 5.1 at 5; AT&T Ex. 5.2 at 3-4.