

These unbundled BNFs and BNF Rate Elements, identified by AT&T, must be offered on a non-discriminatory basis, both in provisioning and pricing; pricing must be on a cost basis, using LRSIC as a cost methodology. In addition, contribution levels should be limited and assigned to components on a basis which limits the opportunities for the incumbent LEC to price those components preferentially on which its own service offerings will rely to the greatest extent. AT&T further contends that the prices for the total unbundled loop elements should not exceed the total price of the bundled offering to the LECs' current customers.

MCI

MCI recommends that the Commission adopt Illinois Bell's proposal to offer unbundled loops and ports under tariff, once certain problems identified by Staff are corrected. Unbundling is important, according to MCI, because it permits potential competitors to purchase only those functions that they need from the incumbent LEC, and it creates new points of interconnection between incumbent LECs and new LECs. MCI Ex. 2.0 at 7. MCI believes Illinois Bell's proposal to unbundle loops and ports is a significant step in making necessary network components available to new entrants, but MCI recommends that additional loop unbundling - especially of feeder and distribution components - be required. *Id.* at 8-12. MCI explained that this additional unbundling into feeder and distribution components will be essential for some new LECs, such as PCS providers. *Id.* at 10-11.

MCI agrees with Staff that LECs should be required to offer unbundled loops, ports, and loop "subelements" upon receiving a *bona fide* request. *Id.* at 12. MCI expresses some concern about the *bona fide* request process because of uncertainty that potential interconnecting carriers will experience regarding the price, terms and conditions under which unbundled local exchange functions will be offered, but states that a requirement for Illinois Bell to tariff all elements of its interconnection arrangements would alleviate these concerns substantially.

MCI fully supports AT&T's position regarding the identification and unbundling of basic network functions that AT&T has identified. See AT&T Ex. 4.0 at 8-9; AT&T Ex. 5.0 at 7. MCI notes that telecommunications services today are characterized by sophisticated, database-driven applications that route information among telephone subscribers in flexible and increasingly intelligent ways. As a result, MCI recommends, as a general principle, that the incumbent LEC should be required to provide signalling interfaces at the same points that it uses when transmitting signaling information among its own network elements. In addition, MCI recommends that all LECs be required to transmit freely all components of signaling protocols between customers and

interconnected carriers, without claiming a proprietary right to certain components or information contained in the signaling messages. *Id.* at 17-18.

Finally, MCI would abide voluntarily by the line-side unbundling rule proposed by Staff because it would not impose undue cost on MCI (or an affiliate) if the company were to provide local exchange service in Illinois. However, MCI disagrees with the portion of Staff's proposed rule that would make line-side unbundling mandatory for new LECs, since the public interest benefits that justify mandatory interconnection exist only when the local exchange provider in question has market power. MCI Ex. 1.0 at 27.

GTE

GTE fundamentally disagrees with many of the other parties in this proceeding on the need for unbundling. It argues that unbundling "is not necessary to achieve a competitive local exchange marketplace." It bases this argument on the fact that there is already local exchange competition, and "certainly rivalry in other market segments" without unbundling. GTE Ex. 1.00 at 33.

GTE contends that unbundling should be determined principally by whether the market demands the unbundled service. If it does, GTE argues, the LEC will unbundle the service on its own, as long as demand is sufficient at a non-subsidized price. GTE Ex. 1.00 at 33-36. It disagrees with those parties, including Staff, AT&T and MCI, that argue for mandatory unbundling, or unbundling based on *bona fide* requests of competitors, claiming that mandatory unbundling "could hinder competition and actually harm consumers" by requiring customers to pay for unbundling for which there is insufficient demand. GTE Ex. 1.00 at 36-37; GTE Ex. 2.00 at 15.

Nonetheless, GTE supports Illinois Bell's unbundling of the local loop into loops and ports. Dr. Gary F. Wilkinson, GTE North Manager for Pricing and Tariffs, explains:

Although the demand characteristics of these unbundled elements are not well understood, GTE believes Illinois Bell should have the prerogative to unbundle these rate elements. In addition, this unbundling could provide valuable information on whether line side unbundling in other areas provides consumer benefits.

GTE Ex. 2.00 at 14.

GTE also claims that there is "scant empirical information on the costs and benefits of line side unbundling," particularly the cost of the full unbundling proposed by MCI and AT&T and the degree to which unbundling will increase competition. GTE Ex. 6.00 at 3-4.

GTE argues that it and the other Illinois LECs will have sufficient incentive to unbundle in the future, and it recommends that the Commission not mandate that LECs (other than Illinois Bell) should unbundle now. Instead, it contends that the Commission should "allow the market to operate" unless the LECs fail to unbundle requested services "to the detriment of consumers." GTE Ex. 2.00 at 15. Accordingly, GTE argues that the Commission should require the unbundling requested of Illinois Bell, and not require unbundling by other LECs, until other competition issues (universal service funding, new customer privacy rules, technical interconnection and quality concerns, and intraMSA presubscription) are resolved. GTE Ex. 2.00 at 16-17; GTE Ex. 6.00 at 4-8; GTE Ex. 9.00 at 3-5.

TCG

TCG states that cost-based unbundling permits potential competitors to purchase only those services that they need from the incumbent LEC in order to provide service to customers most efficiently. TCG agrees that it is necessary for Illinois Bell to unbundle its loop and switch port to permit competitors to interconnect with Illinois Bell in order to serve customers not directly connected to the competitor's network. TCG Ex. 3.00 at 3. Illinois Bell's proposed unbundling of loops from ports, according to TCG is "absolutely necessary" for competition, but it does not go far enough. Ex. 3.00 at 3, 7-8. TCG emphasizes that a competitor also must have access to 911, directory listings and other database functions from the LEC. These services are included in the line-side rule under the definition of a "port." TCG states that incumbent LECs must provide access to these services whether or not a competitor chooses to purchase an unbundled port. TCG Ex. 3.00 at 4. TCG agrees with MCI that the proposed line-side rule should not be mandatory for new LECs. TCG Ex. 1.02 at 6-7.

Centel

Centel argues that LECs should not be required to unbundle loop subelements at this time. It claims that there are "significant issues and implementation procedures" that the Commission should consider before requiring such unbundling. Centel Ex. 1.0 at 13-15; Centel Ex. 5.0 at 8. It also argues that any unbundling rule that is imposed on LECs should also be imposed on new LECs. Centel Ex. 1.0 at 11-12.

MFS

MFS states that unbundled loops are necessary to provide access to an essential bottleneck facility controlled by the incumbent LECs. Line side interconnection will allow competing local exchange carriers to reach directly end user customers who are currently reachable efficiently only through the LEC bottleneck. MFS maintains that it is important that the incumbent LECs not be permitted to manipulate the price level and quality of services in a negative fashion so as to retard a competing carrier's ability to market its services at standards acceptable to itself and its customers. MFS Ex. 2.0 at 47.

MFS argues that Illinois Bell's unbundling proposal as described in the Customers First tariff falls short both from the standpoint of available products and price. It recommends that the Commission adopt Staff's proposed line-side interconnection rule insofar as it applies to incumbent LECs. Application of the rule to incumbent LECs will ensure that unbundled loops are more or less ubiquitously available because of the current reach of the incumbent carriers' networks. MFS Ex. 2.0 at 48-52; MFS Ex. 1.1 at 13.

MFS disagrees with Staff's proposal to mandate that new LECs provide unbundled facilities because, unlike the incumbent LECs, new LECs do not have monopoly control over the essential local loop facilities. New entrants generally will compete in an environment where an end user, reseller or other certificated carrier who wishes to acquire facilities on an unbundled basis will have at least one alternative for the service - the incumbent LEC. MFS asserts that few, if any, start-up carriers could resist matching the offering of the incumbent LEC for unbundled facilities because such action would limit their markets and reduce their potential market share. Although MFS fully expects to make facilities it owns available on an unbundled basis in the event of a bona fide customer request, it is unnecessary to require such unbundling by regulation designed to curb the market power of the monopoly providers. MFS Ex. 2.0 at 51-52; MFS Ex. 2.1 at 17-18; MFS Ex. 1.1 at 13-17.

Illinois Bell Response

Illinois Bell objects to further unbundling at this time, arguing that the "granular" unbundling proposed by MCI, AT&T and others involves complex, difficult issues that should be resolved nationally. It claims that additional unbundling is not necessary to permit exchange competition.

Any further unbundling, Illinois Bell asserts, must be technically and economically feasible, have utility and create a

product for which there is demand. Illinois Bell finds fault in the unbundling proposals of MCI and AT&T, claiming that these parties have failed to prove that there would be any demand for the unbundled products they recommend. IBT Ex. 1.1 at 12-13; IBT Ex. 1.2 at 13; IBT Ex. 3.0 at 33-36. According to Illinois Bell, this extensive unbundling should be ordered only if the Commission determines that it is technically feasible, that there is a verifiable demand for the unbundled functionalities, that the unbundled functionalities truly provide utility, and that the unbundling is economically feasible. Illinois Bell argues that this type of reasonable inquiry has not been done for AT&T's eleven BNFs and that, in fact, there is no real demand for these BNFs. According to Illinois Bell, the request appears to be motivated by AT&T's desire to reduce the price of Illinois Bell's services, not by a desire to get needed functionality.

Illinois Bell asserts that it incurs substantial costs in developing and tariffing an unbundled service, costs which it should not have to bear unless it is proven that there is demand. Illinois Bell argues that these diseconomies of unbundling should provide a limit on the level of unbundling. IBT Ex. 4.10 at 6; IBT Ex. 3.40 at 16.

Illinois Bell also contends that further loop unbundling would be technically infeasible because its local loop facilities are "cramped, complex and potentially vulnerable." IBT Ex. 3.10 at 9. It claims that further unbundling: (i) would create an increased likelihood of service outages; (ii) is not practical because the network is not designed to permit interconnection within the loop; (iii) would overly burden Illinois Bell personnel and facilities; (iv) could create serious safety and security problems if interconnectors were afforded access to loop facilities; (v) would require impractical new forms of physical collocation, which would constitute a physical intrusion on Illinois Bell property; and (vi) is unnecessary, because unbundled loops would permit new LECs to substitute their own loops for Illinois Bell loops by interconnecting at the customer's premise and at the central office. IBT Ex. 3.10 at 21-25.

Illinois Bell believes that rules, contract terms, and litigation would not be adequate to prevent these problems or redress harm to Illinois Bell. It also disagrees with MCI's suggestion that these technical issues be addressed after unbundling is ordered by the Commission. Instead, Illinois Bell believes that the Commission should address these issues before imposing any obligation for unbundling. IBT Ex. 3.5 at 13-19. Accordingly, Illinois Bell recommends that any consideration of further unbundling should be made only in the context of specific requests, pursuant to Sections 13-505.5 and 13-505.6 of the Act. IBT Ex. 3.40 at 18.

Illinois Bell also argues that AT&T, MCI and the new LECs are able to provide themselves with any switch-based functionalities they may need. All of these carriers currently have switches and readily can install more, and therefore do not need unbundled switch functionality from Illinois Bell.

Finally, Illinois Bell also explained that this identical unbundling request is being investigated by the industry in forums sponsored by the Information Industry Liaison Committee ("IILC") under the auspices of the FCC. In connection with its Open Network Architecture ("ONA") proceeding, the FCC designated certain issues it wanted the industry to address at the IILC. One of these was the identification of technical, operational, policy and standards issues associated with long-term unbundling and network evolution.

Conclusion

There was very little dispute in this proceeding regarding the importance of unbundling the incumbent LECs' networks to promote competition in the local exchange. As Staff and others observed, unbundling can facilitate competitive entry by reducing the capital investment necessary to provide local exchange service.

The full pro-competitive benefits of reducing the capital cost barriers to entry can be achieved only if the incumbent LECs are required to sell to their competitors only those network components and functionalities that new LECs need. Without this requirement, incumbent LECs could increase artificially the costs incurred by their competitors by forcing them to acquire and pay for unnecessary LEC functionalities. Unbundling not only reduces competitors' costs of entering the local exchange market, it can reduce the overall societal cost of providing telecommunications services by enabling new entrants to avoid wasteful duplication of incumbent LEC facilities for which competitive provisioning may not be economically viable.

The primary issue for the Commission to determine is the appropriate degree of unbundling to require. Illinois Bell's unbundling proposals, which are limited to separating loops from switch ports, are an important step toward facilitating the development of local exchange competition. However, we believe that additional unbundling will likely serve important public interest objectives.

Full unbundling facilitates physical interconnection and the development of a network-of-networks by creating new points of interconnection between incumbent LECs and new LECs. As Staff and MCI have pointed out, this aspect of unbundling may be crucial to the deployment of new technologies such as Personal Communications Services ("PCS"). PCS providers may wish to provide the

"distribution" function of loop facilities themselves, using wireless technologies to connect their radio sites to an intermediary point at which traffic is aggregated. They would need then to obtain "feeder" facilities from the incumbent LEC to retransmit messages to the incumbent LEC's central office. This network architecture will not be feasible if PCS providers are forced to purchase "bundled" loop services from the incumbent LECs that include both the feeder and distribution portions of the loop facilities.

With this example in mind, we generally endorse Staff's approach of establishing a policy which favors requiring incumbent LECs to unbundle their networks and to offer interconnection at all "logical connection points," including the interface between feeder and distribution plant. We believe that the establishment of a policy favoring multiple interconnection options is one of the conditions that will ensure and enhance the viability of local exchange competition, and thus set that general policy guideline in this order.

We reject, at this time, generic claims that unbundling to the "loop subelement" level would be technically infeasible and would risk harm to Illinois Bell's existing network. On cross-examination, Illinois Bell's witness conceded that Illinois Bell currently runs a risk of harm to the network by end users or new LECs today, even without unbundling, and that its concerns regarding harm to the network assume that Illinois Bell would not be responsible for maintenance of the interconnection equipment. Illinois Bell's testimony was prepared prior to a court-ordered stay of the collocation requirements in Part 790. Illinois Bell admits that most of its "technical harm" concerns would not exist with virtual collocation arrangements. Tr. at 996-998.

The Commission concludes that unbundling LEC networks is essential to permit the development of local exchange competition and is in the public interest. We also conclude that Staff's proposed line-side interconnection rulemaking (Docket 94-0049) provides an appropriate procedural vehicle for the resolution of requests for unbundling. We reserve further discussion of these issues to the line-side interconnection rulemaking, Docket 94-0049.

Additional Issue: Type of Unbundled Transmission Facilities

TCG argues that competitors should have the same control over unbundled facilities as Illinois Bell has control over those facilities. It therefore proposes that it should be able to specify the type of physical transmission facility - copper or fiber - it needs, just as Illinois Bell would determine and provision the physical facility that would best serve its individual customers. TCG Ex. 2.00 at 15.

The Commission rejects TCG's proposal. As Illinois Bell pointed out, incumbent LECs must have the flexibility to design its network in the most efficient manner, which it would not be able to do if it had to meet every customer's demand for type of service. TCG's proposal would be unreasonably burdensome and potentially could impede Illinois Bell's ability to upgrade its network. IBT Ex. 3.40 at 19.

C. Cost Studies and Pricing of Unbundled Service Offerings
Cost Studies

Illinois Bell presented the LRSICs developed for loops, ports, LTF, and the Service Coordination Fee ("SCF"). Mr. William Palmer testified that Illinois Bell's cost studies rely upon the principles set forth in the proposed cost of service rule in Docket 92-0211 and, as such, reflect the forward looking, least cost technology to provide the array of services in question. Dr. Emmerson reviewed Illinois Bell's studies and found them to be of exceptionally high quality. IBT 5.0 at 7; IBT 4.0 at 9. Illinois Bell states that its performed service-by-service costing studies, rather than the "building blocks" approach that MCI proposed, is appropriate because the building blocks concept was raised, and not accepted, in several prior proceedings. IBT Ex. 5.10 at 2.

Illinois Bell's cost study for unbundled services is in many ways an update of the cost study it produced in Docket 92-0448. Illinois Bell identifies costs separately for three different geographic study areas, identical to the study areas used in Docket 92-0448: Area A, a low-cost, high-population-density area; Area B, a medium-cost, medium-density area; and Area C, a high-cost, low-density area. IBT 5.0 at 10. The cost study covers the same three-year Tariff Application Period ("TAP"), - from November 1993 to November 1996 - as did the cost studies in 92-0448. *Id.* at 4. Illinois Bell updated the "vintages" of inputs from its Docket 92-0048 cost study.

MCI Building Blocks

MCI asserts that applying the service-by-service costing methodology used by Illinois Bell is inappropriate. Instead, it contends that Illinois Bell should perform its study on a building blocks basis. It also finds substantial problems with the cost study as performed by Illinois Bell: MCI maintained that updating the "vintages" in the study resulted in skewed time effects on the cost figures. It further claims that the TAP used was inappropriate, since two of the three years of the TAP would have passed before any of these services could have been made available.

Illinois Bell witness Palmer responded that Illinois Bell's studies comply with the proposed cost of service rate in Docket

92-0211 which requires the development of costs on a service-by-service basis. Mr. Palmer points out that MCI made, but then withdrew, its building block proposal in Docket 92-0211.

Collection expenses

Staff witness Frank Bodine reviewed Illinois Bell's studies and testified that they are consistent with the cost of service rule and LRSIC principles. However, Staff contests Illinois Bell's treatment of collection expenses because they are included in both the LRSIC for the Service Coordination Fee and the LRSIC for unbundled loops and ports. Staff maintains that all of the collection center expenses which occur on an annual basis were included in the service coordination LRSIC while an additional percentage was included in each of the unbundled loop and port LRSICs. (ICC Staff Ex 5.02 at 2-3). Staff recommended the removal of collection center expenses from the unbundled loop and port LRSICs.

An Illinois Bell witness responded that it is inappropriate to remove collection expenses from the loop/port LRSICs because such expenses are sensitive not only to the establishment of a customer account (as reflected by the Service Coordination Fee), but also to the number of loop/port components purchased by customers. IBT Ex. 5.10 at 6.

Wholesale savings

Some parties contested the fact that Illinois Bell's cost studies do not reflect wholesale cost savings. AT&T witness Conway testified that there should be savings in Illinois Bell's LRSICs for billing, marketing, and coordinating the installation, and monitoring the upkeep of wholesale loop facilities. Similarly, LDDS witness Gillan testified that Illinois Bell's cost studies should reflect wholesale cost savings.

Illinois Bell responds by pointing out that unbundling sometimes generates additional costs. Nonetheless, Illinois Bell states it is not taking the position that incremental costs never will be lower for those services. If such savings occur, Illinois Bell states that they will be identified in the LRSICs for unbundled services.

Conclusion

The Commission concludes that, after one modification, Illinois Bell's cost studies will comply with the proposed cost of service rule in Docket 92-0211. Although we agree with Illinois Bell that it is possible for collection center expenses to increase as a function of the number of unbundled loops and/or ports sold to

a particular customer, the actual issue presented is whether more than a total of 100% of the annual collection expenses can be included in the costs studies. We conclude that they cannot, and direct that Illinois Bell adjust its treatment of collection center expenses. Inclusion of collection center expenses in the unbundled loop and port LRSICs is acceptable if an equal amount of this expense is removed from the service coordination cost study.

With respect to the issue of whether the wholesale cost savings should be reflected in the cost for unbundled components, the Commission notes that there has been little effort by any party to this proceeding expressing such a concern to specifically identify and quantify any specific cost which Illinois Bell has misstated. Accordingly, the record is insufficient to support the position of these parties. Furthermore, if there are wholesale cost savings it can be expected that they will be identified in future LRSIC studies.

Finally, the Commission does not accept MCI's suggestion that Illinois Bell's cost studies be redone on a building block basis. MCI proposed such an approach in Docket 92-0211, the cost of service rulemaking, but it was not adopted. MCI has not presented a compelling reason in this proceeding to justify reopening the cost study issue.

MCI's argument on the TAP is unfounded. Illinois Bell assumes a TAP running from November, 1993 to November, 1996. It will be obligated to update the studies when significant changes in costs occur, irrespective of the end date of the TAP. Moreover, Illinois Bell is required by the Commission's Order in Docket 92-0448 to file an updated Aggregate Revenue Test on an annual basis. As this test is cost based, any updates to Illinois Bell's cost studies would necessarily be incorporated into the test on a continuing basis. See, Order, Docket 92-0448/93-0239, Appendix A, page 9.

Imputation

Illinois Bell submitted no imputation tests with its proposal to provide unbundled loops, ports, and LTF and contends that none are necessary under the Commission's imputation rule adopted in Docket 92-0210. Mr. Eric Panfil testified that the Customers First tariff filing does not fit into any of the categories requiring imputation tests in the rule adopted in that docket. Illinois Bell is not proposing a new competitive service, reclassifying a noncompetitive service as competitive, reducing the rate for services subject to imputation, or increasing the rates for any element of a service subject to imputation.

Illinois Bell argues that the proper imputation test to apply to its unbundled services would require it to set its price for

services "no lower than the sum of the incremental cost of providing the service plus the opportunity cost associated with diverting the sale of the essential element from the competitor to itself. IBT Ex. 4.10 at 2.

Staff

Staff witness Bodine agreed with Illinois Bell's position that its tariff filings require no additional imputation testing. Staff however, suggests that issues of rate design may require additional imputation testing involving unbundled loops and ports, and that such issues should be addressed in the AT&T Petition docket which has been joined with the Customers First docket.

AT&T

AT&T takes the position that imputation tests should be required for local exchange service and, specifically, for the loops and ports that make up a NAL and suggests that these services be treated as competitive for purposes of imputation. It reiterates its argument that costing and pricing safeguards are necessary to protect exchange competition as it develops in Illinois. AT&T asserts that as long as new entrants must depend upon Illinois Bell for essential facilities needed to provide local service, that is, as long as some portion of the bottleneck remains, Illinois Bell will be able to control the terms of competition and impose higher costs on its competitors than it recognizes for itself for identical facilities and functions. AT&T further contends that the prices for conduit, right of way, and pole attachment should be included in any such imputation test. AT&T Ex. 5.1 at 14-16.

MCI

MCI agrees with AT&T that imputation testing should be expanded to include NALS as potentially competitive and should include the prices for conduit, right of way, etc.

TCG

TCG strongly supports expanding imputation tests to ensure that Illinois Bell is deterred from creating a price squeeze, as TCG contends Illinois Bell proposed with both access rates and unbundled services. TCG argues that such imputation tests need to be done by band, however, because the cost drivers (length of loops and density of customers) are substantially different. TCG Ex. 1.03 at 4-5. TCG further supports AT&T, MCI and others in urging that Illinois Bell should be required to impute for all services, not just "competitive" ones, and it should include scarce

nontariffed items, such as access to rights of way, conduit and other pathways to local exchange customers.

Illinois Bell Response

Illinois Bell responds that an imputation test for NALs would be contrary to Section 13-505.1 of the Act, which requires imputation, in relevant part, only for switched interexchange services and competitive services. Illinois Bell argues that by explicitly requiring imputation for only these services, the statute clearly does not authorize the Commission to require further imputation testing for noncompetitive, intraexchange offerings like NALs.

Illinois Bell further argues that, in any event, any imputation test involving NALs would have to be performed based on essential facilities of the entire body of business which is being contested. In reliance on the testimony of Dr. Emmerson, Illinois Bell argues that NALs clearly represent only a part of the body of business being contested. Other services like usage, carrier access, and custom calling also would have to be included in the appropriate scope of any imputation test so as to analyze properly the total costs and revenues related to competitive entry.

In response to the position of AT&T and MCI, Illinois Bell also argues that any imputation tests for services should not include the prices for conduit lease, right of way, and pole attachments without further study. Illinois Bell contends that requiring imputation of the prices of these facilities would double count the same cost because the price of services using such facilities already covers the costs (and use) of any conduit, right of way, or pole attachment. Imputing conduit, right of way, and pole attachment charges also raises the issue of the extent to which any of these facilities are in fact essential facilities.

Conclusion

The Commission rejects the proposals of AT&T and MCI that we require Illinois Bell to satisfy an imputation test related to the pricing of unbundled NALs. We are adopting a number of pricing rules below, which effectively should preclude a price squeeze. The Commission agrees that Illinois Bell is not specifically required by current law or Commission regulation to satisfy an imputation test as a result of the tariff filings in this proceeding. However, we reject Illinois Bell's argument that Section 5/13-505.1 of the Act defines the exclusive uses for imputation analyses. We will return to this issue in our discussion of reciprocal compensation.

With respect to the issue of whether imputation testing should include prices for conduit, right of way, and pole attachments, the Commission believes that further discussion and investigation is required before the Commission can determine when, if at all, imputation testing would include the prices for these facilities.

Pricing

Illinois Bell

Mr. Richard D. Hillstrom, a Manager in Illinois Bell's Public Policy Organization, testified that the tariffs being proposed by it are noncompetitive. He explained that it seeks to establish rate levels that will facilitate competitive entry for new LECs, cover LRSICs, and generate contribution towards shared and common overhead expenses. In addition, Illinois Bell seeks to establish a rate level that reflects any economies of scale associated with serving customers using large complement sizes. IBT Ex. 6.0 at 17-18. Illinois Bell has proposed that customers purchasing either a loop or a port also would be charged a "service coordination fee" which is intended to recover some Illinois Bell billing costs as well as anticipated costs which may arise from coordinating maintenance and/or billing inquiries with other providers. (IBT Ex. 6.0 at 19) The SCF is a monthly charge which is applied per central office for any number of loops and ports billed to a single customer. IBT Ex. 1.10 at 32; IBT Ex. 5.0 at 6-11; IBT Ex. 6.0 at 3-6. Illinois Bell voluntarily lowered the amount of the SCF to \$1.50 after Staff claimed that the level of contribution was too high in the initially proposed \$5.00 fee. IBT Ex. 6.10 at 4. Illinois Bell stated that it acted with the understanding that should unanticipated costs occur, this rate level may have to be increased.

Illinois Bell proposed a rate structure and rate levels for LTF services. The rates are organized by access area, contract period, complement size, and mileage band. Mr. Hillstrom presented a comparison of LTF rates for unbundled loops plus the addition of a port charge to the existing basic business NAL rate. He testified that the comparison reveals only a very small difference in rates. About half the time, unbundled rates are lower than the bundled rates by as much as 10%. When rates are higher, they are only marginally so -- by 1% to 5%.

Staff

Staff contends that Illinois Bell's proposed rates for the unbundled loop and ports exceed the rates for its bundled NAL that provides the same services and functionalities. Staff maintained that its analysis of the prices that customers would pay for equivalent service using bundled and unbundled Illinois Bell

services in Access Areas A, B, and C demonstrates that customers purchasing Illinois Bell network services would pay between \$5.24 to \$5.37 more for unbundled service, including the "SCF", than customers would pay for bundled service. Staff asserts that there are no differences in Illinois Bell's cost characteristics that would justify higher unbundled rates. Staff Ex. 2.00 at 25-26.

Staff argues that Illinois Bell's proposal to charge higher prices for unbundled network elements than for bundled service creates a price squeeze on new LECs that will make it difficult for new LECs to use its unbundled network elements to compete with Illinois Bell's bundled services. Staff Ex. 2.00 at 27-28. To eliminate this price squeeze and to comply with its third market principle, Staff recommended the following policy in regard to the rate levels for Illinois Bell's proposed unbundled network components:

...unbundled portions of the NAL should be priced no more than the total price of the bundled line (providing the same services and functionalities) given that the cost characteristics for the services are comparable.

The following equation would apply:

Loop + Port + monthly connection charges \leq Network Access Line (NAL)

(Staff Ex. 2.0 at 29).

Staff agrees with Illinois Bell that a Service Connection Fee ("SCF") is an appropriate charge for unbundled service orders. Staff contends that there are costs associated with the ordering and collection of unbundled services, that these costs have to be recovered, and that it is appropriate to do so through a direct charge. Staff asserts that new LEC concerns over the SCF resulting in overpricing of unbundled services would be satisfied by adopting Staff's recommendation that the sum of the prices of the unbundled products should be equal to or less than the price of the bundled product. Staff Ex. 4.01 at 4-5.

Staff does not object to the overall structure of the rates. It also supports Illinois Bell's recovery of contribution for unbundled services. Staff does, however, object to the levels of contribution in general, and the considerable variance of contribution levels between access areas. The contribution levels proposed by Illinois Bell increase considerably from Access Area A to B and are even higher for Access Area C. Such a rate plan puts Area B and especially Area C customers in a less desirable atmosphere for competition to develop, based solely on Illinois Bell's rate design.

Staff believes that differences in contribution levels across access areas should be minimized. Also of concern are the levels of contribution on these service elements. The variances range from approximately 35% to 1,400%. These service elements will be used by competitors to compete against Illinois Bell, and Staff argues that care should be taken when setting rate levels. Staff believes that the LTF contribution levels should be no greater than 200%. Staff Ex. 4.0 at 10-16.

While Staff recognizes that these cap levels could be considered "arbitrary," it contends that the caps are no more arbitrary than Illinois Bell's proposed level of contribution. ICC Staff Ex. 4.00 at 15. In ICC Staff Ex. 4.00, Schedule 1, Staff provides an illustration that would minimize variances in contribution levels between access areas and limit the overall contribution levels. Staff believes that its proposal will meet its concerns and still provide Illinois Bell with a large amount of pricing flexibility from one service element to another including the opportunity to cover overheads and common expenses.

MCI & AT&T

MCI and AT&T agree with Staff that the prices for Illinois Bell's proposed unbundled services create a "price squeeze" for new LECs. Staff Ex. 2.0 at 25; MCI Ex. 1.0 at 35; AT&T Ex. 5.1 at 14. These parties argue that new LECs will not be able to compete with Illinois Bell's service, because they will have to pay more for the components from Illinois Bell than they can charge customers. MCI witness Goldfarb, MFS witness DeFlorio, and TCG witness Aukum also agreed with Staff's position.

MCI objects to the contribution levels proposed for unbundled services on two grounds. First, it agrees with Staff that the level of contribution in Illinois Bell's proposed rates for loops, LTFs and ports is excessive. It argues that contribution levels for each building block should be unitary across all usage of that building block, not varying according to the service the building block is bundled into. MCI Ex. 1.0 at 32. Second, and more fundamentally, MCI argues that any level of contribution on unbundled services sold to new LECs would be inappropriate and would impede competition by unnecessarily raising new LECs' costs. Thus, MCI takes issue with Illinois Bell's claim that LECs incur higher costs to provide unbundled services. MCI claims that, because unbundled loops have to be interconnected within Illinois Bell's network today, there is no additional cost associated with interconnecting these facilities to new LECs' facilities. MCI Ex. 2.2 at 2. MCI asserts that the SCF (like the loops, LTF, and port) should be priced at LRSIC, with no contribution. MCI Ex. 1.0 at 36. MCI also took exception to Illinois Bell's LTF rates by proposing that pricing be based on a so-called building blocks

approach. Under building blocks, MCI proposes absolute dollar markups above cost that the price of any particular loop should reflect.

Through the testimony of Ms. Conway, AT&T agrees with Staff's overall concept, but disagrees with the specific proposal of Staff that a 200% cap should be placed on LTF complements. Ms. Conway proposed, instead, rate caps on unbundled services that would be based upon the level of contribution for the corresponding bundled service. Under this formulation, the contribution to be reflected in the price of each of the unbundled services would be allocated among the unbundled services in exact proportion to the total incremental costs of the bundled service. Staff witness Bodine indicated that Ms. Conway's alternative was acceptable. Staff Ex. 4.02 at 2.

MFS

MFS agrees with Staff, MCI and AT&T that the price of unbundled service elements, added together, should not exceed the cost of Illinois Bell's bundled service. MFS recommends that all charges associated with interconnection, including the SCF and mandatory cross-connection charges, should be included in the calculation because a competitive carrier can obtain an unbundled loop or port only by paying these charges. MFS Ex. 2.2 at 10-11.

MFS further contends that this pricing proposal is justified on the grounds that the combined unbundled elements are a substitute for bundled service. Moreover, customers may have no incentive to use a competitor's services unless the combined charges for the unbundled elements are no more than the charge for a bundled network access line. MFS Ex. 2.1 at 19. In order to avoid sending a message that Illinois Bell can pass its administrative costs through to competitors without regard to efficiencies, MFS contends that the Commission should reject the SCF. The SCF represents a charge for administrative processing functions that are wholly within Illinois Bell's control. Because new entrants will be paying for the functions directly, Illinois Bell will have no incentive to improve its costs. If adopted, the SCF should be set at no more than \$1.00. MFS Ex. 2.2 at 10.

If Illinois Bell is permitted to recover contribution for unbundled services, MFS urges that the price of the unbundled elements should reflect a proportional distribution of Illinois Bell's contribution from the bundled elements. MFS also recommends that the non-recurring rate for converting a bundled local exchange end user access service to an unbundled port service or unbundled loop service should not exceed the non-recurring rate for establishing a new unbundled port or unbundled loop service. Non-recurring and reconfiguration charges should be applied in a

neutral and non-discriminatory manner, such that waivers or discounts on bundled services apply in like manner to unbundled services. MFS Ex. 2.0 at 50, 52-53; MFS Ex. 2.1 at 18; MFS Ex. 2.2 at 10.

Centel

Centel disagrees that there should be a rule prohibiting the sum of the unbundled pieces to be priced higher than its bundled service. In some instances, it claims, such a rule would not reflect the additional costs associated with unbundled services. In the case of a NAL for example, Centel argues that it has to provide only one cross-connect if the loop and port are sold together as a bundled service, but it must provide two cross-connects if two different customers purchase the loop and the port. Centel Ex. 1.0 at 18-19.

Centel disagrees with Staff's proposal to cap contribution rates on LTFs. It argues that the rate cap level is arbitrary and is not required by the Act. Centel Ex. 1.0 at 22-23.

CUB

CUB witness Dr. Mark Cooper recommended instituting a proper recovery mechanism for the costs of upgrading the network that requires the investment to be based on economic principles of used and useful and least-cost provision of service based on reasonable projections of benefits, revenues and/or cost savings. He suggests that the Commission establish a range of "subsidy free" prices, that is, prices that are reasonable and will prevent cross subsidization. Mr. Cooper suggests that the ranges be set between LRSIC (the low end of the range) and stand-alone costs. CUB Ex. 1.0 at 32. CUB favors the application of predictable price rules to set rates between these floor and ceiling levels. CUB argues that pricing flexibility should be permitted only where actual competition exists. CUB Ex. 1.00 at 32-33, 36.

Illinois Bell Response

In response, Mr. Hillstrom contended that the price comparison of these parties ignores the fact that existing rates for bundled services do not necessarily serve as a standard for unbundled rates, particularly since the costs to produce bundled and unbundled services are not necessarily the same. He further testified that the price comparison offered by these parties exaggerates any differences between the bundled and unbundled rates by including the total SCF in the loop-at-a-time price comparison even though the SCF applies only once for any number of loops and/or ports for a single customer account per central office. Mr.

Hillstrom therefore contended that any realistic price comparison should spread the SCF over multiple loops.

Illinois Bell further contends that a "sum of the parts" rule would create an "arbitrary limit" on the price for unbundled service. It claims that this limit fails to recognize the "cost difference" between providing bundled and unbundled loops and ports. Illinois Bell also objects to including the SCF in the comparison of rates, arguing that this one-time fee would not be applied to each line, but, instead, would be a single charge for central offices. Excluding the SCF, Illinois Bell states, the total rates for bundled and unbundled local exchange services are comparable. IBT Ex. 6.10 at 2, 3.

Illinois Bell asserts that it is entitled to receive a contribution above LRSIC in the prices it charges for unbundled services. Illinois Bell believes that it should have the right to set the contribution at any "reasonable" level it chooses, and opposes a "contribution cap" on these services as arbitrary and, therefore, inappropriate. IBT Ex. 6.10 at 6.

Illinois Bell responds that it knows of no Commission Order imposing such a contribution cap on LEC services. It argues that Staff ignores the fact that existing rates for bundled NALs for individual customers already have widely varying amounts of contribution. Illinois Bell points out that no party to this proceeding is suggesting that the substantial contribution levels that are inherent in the average price for a bundled NAL for customers who are close to central offices are in any way improper. Illinois Bell argues it should not be penalized by being required to forego NAL contributions for the same loops when they are offered as part of LTF. Illinois Bell further contends, through the testimony of Richard Emmerson, an economist, that such arbitrary caps are totally inconsistent with the literature concerning economic efficiency because they can lead to distorted decision making.

With respect to MCI's proposal, Illinois Bell argues, through the testimony of Dr. Emmerson, that it is contrary to established economic principles which hold that uniform markup rates are inconsistent with economic efficiency because nonuniform rate structures can be adjusted to fit demand characteristics for a particular service.

With respect to AT&T's allocation of contribution on the basis of LRSICs, Illinois Bell contends that AT&T's proposal is as arbitrary as Staff's. Like Staff's approach, AT&T's approach would penalize Illinois Bell for offering LTF by limiting contributions on loops. Illinois Bell also argues that AT&T's proposal is premised on the erroneous assumption that the costs for a bundled

service necessarily correspond to the costs for an unbundled service.

Illinois Bell also responded to MCI's position that Illinois Bell should not be permitted to recover contribution markup in the SCF and claims there is no equivalent markup in the bundled NAL price. Illinois Bell responds that the SCF is designed, in part, to recover costs that will be generated by the new activity of coordinating account maintenance with new providers. In addition, Illinois Bell argues that adoption of MCI's position would deny Illinois Bell the opportunity to recover contribution on billing costs that it recovers today in the price of an NAL.

Illinois Bell states that it did not create a range of "subsidy-free" prices because that approach is both unworkable and disfavored by the Commission. To create these pricing ranges, it argues, would require both a stand-alone and a LRSIC analysis for every service and every combination of service, which it contends is unreasonable. Moreover, Illinois Bell argues that the Commission previously considered and rejected this proposal in Docket 89-0033 and 92-0211.

Conclusion

The Commission agrees with Illinois Bell that the allegations of a price squeeze in its unbundled prices were somewhat overstated due to the treatment of the SCF in the analyses. The SCF is a monthly charge which applies for any number of loops and/or ports ordered for a single customer account from any particular central office, even if these loops and ports are ultimately used by a new LEC to serve one or two line customers. A realistic price comparison must spread the SCF over multiple loops. In addition, Illinois Bell's voluntary reduction of the SCF to \$1.50 substantially improved the overall reasonableness of its proposed rates.

Nevertheless, we shall adopt the pricing rule proposed by Staff such that the sum of the unbundled portions of the NAL, i.e., the loop, port and monthly connection charges, should be priced no more than the total price of the bundled line providing the same services and functionalities. We believe this serves to establish an important principle which helps prevent an actual occurrence of a price squeeze. Where monthly connection charges apply to purchases of multiple loops and ports, as is the case with the SCF, then the LEC shall be permitted to spread that rate element over a reasonable number of loops and ports. We agree with Illinois Bell that the costs to produce bundled and unbundled services are not necessarily the same. However, we note that Staff's proposed pricing rule explicitly states that it applies if the cost characteristics of the bundled and unbundled services are

comparable. The evidence of record establishes that the costs of provisioning the bundled and unbundled services included in Illinois Bell's tariffs are almost exactly the same.

The Commission rejects the arguments of those parties who suggested that the SCF proposed by Illinois Bell should be eliminated entirely. The evidence clearly indicates that there are costs associated with the provision of this service. These costs must be recovered, and the most reasonable method is through a direct charge. We also approve as reasonable the \$1.50 level for the SCF which was agreed to by Illinois Bell and Staff. This level is acceptable because it not only covers costs, but provides an adequate amount of contribution to cover overheads or common costs. The proposals of AT&T, MCI and MFS to reduce or eliminate the SCF fail to recognize the importance of this factor. Furthermore, it would be inappropriate to remove all contribution from the SCF, given the fact that a NAL today recovers contribution on billing costs which, under Illinois Bell's proposal, would be recovered under the SCF.

The Commission also will require Illinois Bell to reprice LTF such that the contribution levels do not exceed 200%, and that differences in contribution across access areas are minimized. The contribution levels proposed by Illinois Bell increase considerably from Access Areas A to B to C. As Staff noted, this places Area B and especially Area C customers in a less desirable atmosphere for competition to develop.

Illinois Bell argues that Staff's and AT&T's proposals were inappropriate because costs varied due to different loop lengths in the access areas. However, this argument only explains why there would be a variance in cost-based rates, it does nothing to explain why the contribution levels proposed by Illinois Bell are appropriate. The Commission does not believe that Illinois Bell has demonstrated adequately that a contribution of up to 1400% is reasonable. In addition, Illinois Bell's arguments related to the economic efficiency of varying contribution levels cannot be assessed, within the context of its specific proposals, in the absence of elasticity studies.

While we agree that the selection of a 200% contribution cap is judgmental in nature, some rate design guideline is necessary, given the importance of establishing appropriate prices for services used in competition with Illinois Bell's own services. We believe that AT&T's approach is less desirable than Staff's because it may not reflect adequately the potential difference between the costs to provide bundled and unbundled services.

Other Tariff Issues:**LTF Contract Terms**

Illinois Bell offers LTF for contract terms of one, three and five years in combination with other services to end users. Under the proposed contracted terms, rate increases for LTF complements will not apply to existing customers which purchase LTF. Illinois Bell submits that the proposed rate stability for LTF customers is reasonable because customers will not elect contract terms unless Illinois Bell provides them rate stability. Moreover, the contract option is available to all customers on the same terms and conditions at any given point in time.

Staff objects to Illinois Bell's rate stability proposal on the basis that such stability would result in undue discriminatory pricing that would be anticompetitive.

Conclusion

We agree with Illinois Bell that under the Act, the Commission has the authority to approve rates even though such rates may be different from one customer to another. Citizens Utility Company v. Illinois Commerce Commission, 50 Ill. 2d, 35, 41, 276 N.E.2d 330, 333 (1971). The Commission's authority is based upon Section 9-241 of the Act, which prohibits only "unreasonable differences" as to rates and services between customers, and permits the Commission to consider all relevant factors in approving rate design. The Commission concludes that providing the same LTF rates to customers who sign up at any particular point in time does not create unreasonable differences with customers who sign up subsequently. Such differences are reasonable given the fact that market conditions and costs may have changed in the intervening time period. The Commission therefore approves the proposed LTF contract terms.

Use and Resale Restrictions**Staff**

Staff finds portions of Illinois Bell's proposed unbundled tariff to constitute an inappropriate resale restriction. First, Staff believes that the following language should be removed from Illinois Bell's tariffs if approved:

A Company-provided loop cross-connected to a Company-provided port will be provided as a network access line under Section 19 of this PART (Illinois Bell proposed tariff ILL C.C. No. 5, PART 2 - Section 26, Original Page 1).

Staff believes that this language should be removed because as the provision of loops and ports becomes more competitive, Illinois Bell may be required by the market to reduce either its loop or port rates. At such a point, prohibiting customers from purchasing these elements in unison effectively would remove a lower cost alternative for many customers. Staff Ex. 2.00 at 32.

Staff argues that with its rate design proposal, this type of exclusionary language would be unnecessary. Customers initially would pay the same rate for a loop plus a port as they would for the bundled NAL service. In this way, any market erosion from the current NAL service would be completely revenue neutral to Illinois Bell. Second, Staff witness TerKeurst has articulated certain principles that Staff believes are important in order to facilitate and advance efficient entry for local competition. These principles suggest that tariff restrictions regarding the purchase of services should be minimized if not eliminated. Instead, rate designs should attempt to reduce or remove non-cost based incentives to move between non-competitive services which provide highly substitutable functionalities.

Staff objects to another term in the proposed tariffs. It contends that unbundled ports should be available for both residential and business services. Staff Ex. 2.00 at 32-34. Staff points out that Illinois Bell has suggested that all customers purchasing an Illinois Bell port would be required to purchase access from Illinois Bell's business usage schedule. Tr. 825. Currently, residential customers of Illinois Bell's NAL service are allowed to purchase usage from the lower rate residential usage schedule. Staff argues that under the Illinois Bell proposal, residential customers of the NAL would be able to continue purchasing from this somewhat cheaper schedule while residential customers who might choose to use the loop of a competitor and the port of Illinois Bell would be required to purchase usage from the higher rated business usage schedule. Staff asserts that this practice appears to be prima facie anti-competitive and recommends that Illinois Bell not be allowed to implement its proposal in this manner. In addition, Staff maintained that if there were no apparent differences in costs between a residential customer's usage utilizing a bundled NAL and a residential customer's usage utilizing an unbundled port, it was discriminatory to preclude residential port customers from utilizing the residential usage schedule. Staff Ex. 2.00 at 33.

For this reason, Staff recommends that the Commission deny Illinois Bell's proposal to apply business usage rates to residential port users and order that residential customers be allowed to purchase Illinois Bell's residential usage services regardless of who provides that customer his/her loop services.

AT&T

AT&T testified that one of its nine conditions for introduction of competition to the extent feasible is the removal of all restrictions on resale and sharing of LEC services. AT&T witness Conway maintained that Illinois Bell's tariffs contained a number of instances where resale was restricted and user restrictions imposed.

First, resale of residential local service is restricted. While AT&T notes that Section 13-505.3 of the Act permits removal of restrictions on resale to residential customers, it argues that such restrictions have not been justified based on the evidence presented here, and should be removed to facilitate competition for residence customer, even if it would not be facilities-based competition. AT&T Ex. 5.2 at 11. Second, Illinois Bell has refused to permit residential customers taking service from another provider, if any, to take advantage of the lower usage schedules which its own residential customers will have available. Also, Illinois Bell will charge its own residential customers the lower subscriber line charge, and charge the higher subscriber line charge to its competitor's residential customers. AT&T Ex. 5.1 at 22-23. AT&T asserts that this will make it impossible for a new entrant to emerge as an effective provider for residential, local exchange service. AT&T Initial Brief at 73.

AT&T also relies upon two analyses of Illinois Bell's rate structure for loops and ports. One assumes that a new entrant will self-supply a loop and resell an Illinois Bell port. The second assumes that a new entrant will resell an Illinois Bell loop and self-supply its own port. AT&T Cross Ex. 15, 16. Substituting Staff's proposed rates for unbundled loops and ports, a new entrant would have to price far in excess of Illinois Bell's current \$6.05 per month offering. In both cases, a competitor is price-squeezed even before consideration of usage charges and subscriber line charges.

AT&T further argues that Illinois Bell proposes to prohibit customers from purchasing both unbundled loops and ports. This prevents new entrants from utilizing only the elements they need from Illinois Bell and incurring their own incremental costs involved in coordinating and maintaining the provision of a bundled NAL offering to the end user customer. Additionally, Illinois Bell continues to restrict use of its competitive STF to certain Illinois Bell services and would limit the use a competitor could have for these services without any technological justification. AT&T Ex. 5.2 at 8. Each of these restrictions should be removed according to AT&T. If they are removed, AT&T would agree with

appropriate limitations to prevent the offering of local service to business customers at residential rates.

MCI

MCI takes the position that a reseller should be permitted to purchase residential services, but should be required to resell such service only to its own residential customers, and not business customers.

CUB

CUB maintains that ports and usage serving residential consumers should be rated at the residential usage rate and made available for resale and for direct purchase. CUB Initial Br. at 11.

LDDS

LDDS argues that the Commission should make ports with residential usage rates available for resale, but only to residential customers.

Illinois Bell Response

Illinois Bell argues that allowing a customer to combine a loop and port to replace a bundled NAL will lead to tariff shopping and will have adverse financial consequences that ultimately would have to be made up in end user rates. Illinois Bell should be entitled to direct customers to its existing tariffs which already provide bundled functionality. It should not be required to provide services which needlessly compete with other Company offerings.

Illinois Bell argues this reflects long-standing Commission policy that resellers purchasing services from a LEC are considered to be business customers which, accordingly, must purchase services at business rates. This applies irrespective of the identity of end users to which resellers provide services and is consistent with the Commission's authority to prohibit resale under Section 13-505.3 of the Act.

Illinois Bell argues that if it were required to sell residential services at residential rates to resellers it would suffer substantial revenue losses because then any business customer would be able to purchase services at residential rates. It also contends that even if it were required to offer a residential port only to resellers and only for the reseller's residential customers, that such a policy would be virtually unenforceable since ports do not have an identifiable termination at a customer's premise. Illinois Bell could, therefore, never

verify if such a restriction were being honored. Because the restrictions would be unenforceable, they would lead to irresistible temptations to arbitrage its residential/business rate structure.

In response to AT&T's argument that the restriction precludes the development of competition in the residential market, Illinois Bell asserts that the evidence only shows that new entrants need to provide additional services besides loops and ports to be competitive. For example, they can provide usage and value added services like touch-tone, call waiting, call forwarding and three way calling. They also can compete on the basis of charging lower, non-recurring charges.

Conclusion

The Commission concludes that it will approve the tariff language requiring that an Illinois Bell-supplied port cross-connected to an Illinois Bell-supplied loop be provided as a bundled NAL. Staff's proposal is premature at best in the absence of any actual price difference between bundled and unbundled offerings or any showing of anticompetitive impact. It is also administratively awkward.

With respect to the residential rate resale issue, the Commission is persuaded that the policy of Article XIII of the Act and the record herein require that residential loops, ports and NAL should be made available for resale to residential end users. However, the Commission is concerned about the potential to arbitrage the price differential between residential service rates and business services rates. In order to minimize this potential, the Commission will impose a restriction that a reseller must agree to resell residence loops and ports only to residence customers and not to business customers. The Commission shall initiate a proceeding to explore the full range of issues associated with the appropriateness of such resale restrictions and the role of resellers in the new era of local exchange competition. This proceeding should, at a minimum, address the following questions: Can the use of residential rate ports effectively be limited to the provision of service to residential customers? Will elimination of the resale restriction result in the elimination of business and residential rate distinctions? Would that be desirable?

The Commission is committed to the development of exchange competition which will benefit residential, as well as business customers. The most effective way to develop competition for residential customers is to allow the resale of residential services to residential customers. Section 5/13-103 (b) of the Public Utilities Act states that when consistent with the protection of consumers, inter alia, competition should be