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1401 H Street, N.W.
Suite 1020
Washington, D.C. 20005
Office 202/326-3810

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Ameritech

Celia Nogales
Director - Federal Relations

September 19, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

RE: **Ex Parte Statement**
Docket 96-149

Dear Mr. Caton:

On September 19, 1996, Mr. Gary Phillips, Director - Legal Affairs and I met, in separate meetings, with members of the Policy and Program Planning Division. In attendance at the first meeting were Donald Stockdale, Cindy Jackson, Susan McMasters, Craig Brown, Brent Olson and Pat DeGraba. In attendance at the second meeting were Carol Mattey, Radhika Karmarkar, Linda Kinney, Blaise Scinto, Cheryl Leanza, Michelle Carey, Sarah Whitesell and Joe DiScipio. The purpose of the meetings was to discuss Ameritech's position as stated in the comments and reply comments in the above referenced proceeding. The attached material was used as part of our discussion.

Sincerely,

Celia Nogales

Attachment

cc: D. Stockdale
C. Jackson
S. McMasters
C. Brown
B. Olson
P. DeGraba
S. Whitesell
C. Mattey
R. Karmarkar
L. Kinney
B. Scinto
C. Leanza
M. Carey
J. DiScipio

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List A B C D E

I. General Remarks

o The FCC's obligation is to apply the statute as written. The incumbent long-distance carriers are treating this proceeding as an invitation to rewrite the statute. FCC must reject those efforts.

o FCC must remember that separation requirements and other restrictions are not ends in themselves; they are means to an end.

o AT&T six times the size of Ameritech

II. Joint Marketing

A. Proposed Restrictions on BOC Joint Marketing after InterLATA Entry Are Anticompetitive and Inconsistent with the Act

o Customers want bundled service packages.

o The joint marketing restrictions proposed by AT&T & others are anticompetitive efforts to deny BOCs the ability to participate effectively in the market for bundled services.

o When Congress intended to restrict joint marketing, it did so expressly. See FCC Open Video Systems decision, where FCC rejected arguments that it should restrict joint marketing of video and telephone services on ground that, had Congress intended to do so, it would have so provided. (2nd R&O at ¶¶ 246-247, released 6/3/96).

B. Restrictions on inbound marketing are inconsistent with the Act, FCC precedent and the public interest.

o Equal access provisions do not apply to joint marketing.

o Section 274, which otherwise prohibits joint marketing, expressly permits "inbound telemarketing or referral services."

o Restricting inbound marketing would be inconsistent with FCC decision on open video systems. " (3rd R&O at ¶ 214, released 8/8/96)

C. AT&T's Argument that Post-Sales Activities do not Constitute Marketing is Wrong

o Marketing is not limited to activities that take place prior to the customer's decision to subscribe. Sales efforts are ongoing.

o All carriers in the marketplace are constantly marketing to existing customers so that they can sell more services to those customers.

o Moreover, it is not just ongoing sales that are critical in marketing. The essence of one-stop shopping is a single point of contact. Customers want one number to call when they have service problems.

o But even if certain post-sales efforts are not part of joint marketing and sales, they should be permitted as a shared service -- provided there is proper accounting and the service is made available to others.

III. FCC Should Clarify That BOC Affiliates May Provide Local Exchange Service Through Resale or Purchase of Unbundled Elements

o The Act is clear on these points.

* TCG's argument that 272(a) prohibits an affiliate from providing local service misquotes section 272(a).

o There is no public policy reason to prohibit BOC affiliates from providing local exchange service.

* There is broad consensus that they may do so. Even AT&T agrees that BOC affliates may resell BOC services. LDDS agrees that affiliate may resell BOC services, purchase network elements or construct or acquire its own network.

* FCC should not be concerned with how affiliate provides local, so long as affiliate takes any inputs it derives from AOC on same terms on which those inputs are available to others. Argument that allowing anything other than resale would enable BOC to place all network advances in affiliate is a red herring:

  Any network element purchased by affiliate must be made available to others. It is pro-competitive, not anticompetitive, for Ameritech and/or affiliate to design innovative new solutions for customers using those network elements. Others have the same opportunity. So long as affiliate purchases inputs (services or elements) from the BOC at generally available terms and conditions, there is no public policy reason why the affiliate should be prohibited from providing its own packages of services just like other providers.

o Various entities are citing statements in NPRM (in particular, paragraphs 70 and 79) as evidence that FCC believes that BOC affiliates may not provide local exchange service.

o Competition will not be served if states can deny BOCs the ability to participate as equal citizens in the one-stop shopping world. This is not a matter reserved to the states under the Act. The statute is clear, and the FCC cannot give states the lattitude to ignore the clear language of the Act.

IV. Sharing of Administrative Services

o The Act does not prohibit shared services.

o There is no public policy reason to prohibit shared administrative services, as evidenced by the fact that the Commission specifically permitted them in CI-II.

o Ameritech will provide ACI with the general corporate oversight inherent in a parent, subsidiary relationship. In addition, under current plans, ACI and the AOCs may share the following administrative functions (i.e., these functions may be shared or provided by Ameritech, a subsidiary of Ameritech, or an outside vendor to ACI and the AOCs):

* Legal services, public and government relations
* Labor relations services
* Corporate security services and advice
* Tax and insurance, including coverage under Ameritech umbrella policies
* Ameritech benefit programs, including pension plans, incentive plans, and employee stock option plans
* Bulk purchasing of supplies and equipment and related ordering, warehousing, inventory, delivery, salvage, and return functions
* Billing and data processing
* Limited accounting support (though both will maintain their own accounting staffs and separate books);
* Limited human resource services (such as EEO, generic training)

o All shared services will be comport with 272(b)(5) and Part 64 rules.

o 272(b)(3) relates to the relationship between ACI and the AOCs, not ACI and other affiliates of Ameritech. The argument that the BOCs and the 272 affiliate would simply outsource all their activities to the third affiliate and thereby achieve the precise joint integration prohibited by 272 is a red herring. This is where operational independence comes in. That would not be the case, though, if administrative services or billing services or other non-bottleneck services are shared -- subject, of course, to proper accounting.

Keeping the Customers Satisfied

Joseph P. Nacchio
Executive Vice President
AT&T Consumer and Small Business Division

Morgan Stanley Conference
New York, N.Y.
February 13, 1996
(As prepared for delivery)

Good afternoon.

I'll be talking with you for the next few minutes about the power of AT&T's brand, about the kinds of services we're bringing together into communications bundles, and about how we're supporting these bundles. To help us get started, I've brought the AT&T brand with me.

(Hold up branding iron.) Is there anybody out there who isn't an AT&T customer?

A company has to be careful with its brand. You may have heard the story about the conglomerate that decided to buy dozens of cattle ranches in Texas. They thought that by combining all the ranches they could make a tidy sum -- using economies of scale and all that.

So their lawyers got together to name the mega-ranch and commissioned a designerto make a collage of all the ranches' names and brands. And so the Circle J, the Flying W, the Rocking Horse, the Double R Bar, and all the others were united in a giant multi-image logo.

Unfortunately, at the company's first meeting, the chairman had to report that the ranching operation was a total loss because all the cattle had died. A stunned analyst asked him, "What happened? Was it the plague? Were they poisoned?"

"Neither," replied the chairman, "they didn't survive the branding."

AT&T's doing some re-branding with a focused approach on communications services. And, believe me, not only will we survive -- we'll thrive. Any company's brand is invaluable. The brand is the primary way customers differentiate one product from another.

And surveys consistently confirm the power of AT&T's brand. Anywhere between 30 and 60 percent of the people in the U.S. still think AT&T is their local phone company. And it won't be too long before they're right.

That's a good example of the reach of our brand. Of course, brands don't inventthemselves and gain strength on their own. We've built our brand by satisfying one customer at a time.

We now have about 60 percent of the long distance market in the U.S. That translates into a relationship with some 90 million customers and gives us an enormous opportunity as we extend the brand into new areas. But to do this effectively, we have to understand customers for communications services better than anyone else.

That's why we use a metric called Customer Value Added -- CVA -- to keep track of how customers rate the performance of companies in our industry. CVA compares the ratings our customers give us to the ratings our competitors' customers give them.

The data we have show that our customers are relatively more satisfied than the customers of other long distance companies or the RBOCs. his means our customers like us more than their customers like them.

By tracking CVA, we have an early warning system that helps us know when customers' needs are changing. For example, our research shows that as customers, changing regulations, and technology redefine our industry, about twoout of three people will want to bundle long

distance and local services.

Customers have always liked bundles. In fact, they've never really distinguished between local and long distance services. It's not a logical separation in their minds. It's only logical to regulators. Most customers are like my mother. She thinks of a long distance call as any time she uses the phone to reach someone she can't see from her kitchen window.

Customers today are also telling us -- and anyone else who will listen -- that they want more than just local and long distance phone service combined. They want wireless, on-line, cable TV, and entertainment in their communications servicesbundles too.

Our job is to develop the bundles of services they most want. And we'll do it by bringing the power of our brand to bundles.

The right bundles strengthen our bonds with customers and increase retention rates. And, as new combinations of communications bundles become possible, the first company to satisfy people's needs for those bundles gains a great advantage. They establish a bond that even the promise of lower prices won't break.

Now let's take quick look at the elements in our future bundles.

DIRECTV

We announced our partnership with DIRECTV a few weeks ago. And I have to tell you it's a first for me to "pick up" a product that's already an industry leaderand that fits perfectly into our strategy for bundling. This is a relatively small capital investment for us, but it's an investment that can help turn a $25 long distance customer into a $75 bundled customer.

We're going to be able to make money here relatively quickly. It's certainly going to be sooner than it will be for anyone who has to spend billions to build, launch, and prove-in a satellite system and supporting network.

LOCAL SERVICE

Local service also will have a place in most of our future bundles. As Bob Allen said last week, we will take the initial steps to offer local service in all states by March 1st. And we expect to be providing local service in some states by late summr or early fall. We've also set up a seven-region structure to market bundles that include local service. The new Telecommunications Act will bring great change, but it's the kind of change we're used to. When divestiture pushed us into the world of competition, we weren't ready -- but we're more than ready now. We look forward to being a seasoned competitor with an opportunity to get into an industry that has been a monopoly for decades.

It's already clear that customers are supporting our entry into

in-state long distance. We've doubled our market share in a year, gained dial-around authorityin 49 states, and increased our revenue by more than 100 percent. And we think we can do just as well in local service.

Our data show that when we get to an environment where providers bundle long distance, local, and entertainment services, not only will we retain significant market share in long distance, but we will be either number one or number two in each region for local service.

Independent data support our findings. A Morgan Stanley survey from last year indicated that 30 percent of the people questioned would switch to AT&T for local service if prices were the same. And, in a recent Yankee Group survey, almost 50 percent of the respondents said if they could get local and long distance service from the same carrier, they would select AT&T. Nobody else had more than a 6 percent share.

But no matter what survey you believe, we are going to have an important part ofthis market -- and it's a great market. Total revenues for the RBOCs, GTE, and other local providers are more than $90 billion compared to $74 billion for long distance companies. And net income for the "local" companies is around $15 billion compared to about $8 billion for the long distance industry. That sure looks like an opportunity to me.

There are several effective approaches to our local opportunity and we're ready to make use of them in the right proportion, for the right place, and at the right time. You'll see us mix resale, enhancements to our network, wireless, and alliances to get the job done.

WIRELESS

Another key element in everyone's emerging bundle is wireless. All the telecommunications companies are scrambling to make wireless part of their end-to-end service bundles. It's already part of our bundle. Our initial cellular/long distance bundle has reduced customer switches (outpics) by around 20 percent.

We've completed the conversion to equal access for wireless and we're extending our national footprint to cover about 80 percent of the U.S. Half a million cellular subscribers signed up for our service in the last quarter of 1995. That's 20 percent better than last year's fourth quarter and it put us up about 37 percent for the year. It's no coincidence that this was the first quarter we offered a long distance/cellular bundle.

There are multiple synergies that have come -- and will come -- from our purchase of McCaw. AT&T has brought the power of the brand, the strength of our advertising, and additional sales channels to McCaw. McCaw provides an indispensable element for customer bundles, local service know-how, and a real entrepreneurial culture to AT&T.

Together, we're leading the industry in the next generation of digital technology -- the technology that will integrate voice and data for wireless. This will pave the way for more sophisticated services like Caller ID or a message-waiting indicator on your cellular phone.

Wireless also gives us faster and easier ways to enter global markets, and we're pursuing this option on a selective basis.

UNIVERSAL CARD SERVICES

Our Universal Card business adds unique elements to the bundles we can provide. As we package credit with communications, we can improve the scope of our bundles and at the same time add value to the UCS card.

ON-LINE SERVICES

On-line services will be important parts of our bundled offers. Our three basic approaches to serving customer needs through PC-based on-line services take advantage of the Internet's open system.

First, we have content aggregation services like the AT&T Business Network that received PC Computing's highest rating as a business resource. Second, we'll supply hosting and transactionservices like the AT&T Easy World Wide Web. This service lets customers control the content of their web pages while we handle the technical details. And third, we'll provide value-added access -- like WorldNet that's moving out of beta testing this quarter. We've designed all our on-line services to take the worry out of being digital.

That's a quick summary of what's going into our future bundles. We'll bring the power of our brand to multiple bundles using all these elements both domestically and globally.

And we're going to assemble our bundles in creative ways that provide maximum benefits for our customers and shareowners while minimizing capital requirements. That's why we're restructuring. That's why we're expanding an infrastructure that supports customer care. That's why we continue refining ourcost structure. That's why we're developing the technologies that will help us innovate for our customers. And that's why we are forming alliances.

RESTRUCTURING

Our restructuring will make it possible for us to support bundled offers with an infrastructure that seamlessly handles billing customer care, and product management across the entire company.

This restructuring is going to give us an organizational way to deliver bundles with a market segment focus and a speed that we haven't had until now. Another advantage of the restructuring is

that we'll be able to put more of the resources generated by communications services back into the services business.

INFRASTRUCTURE

Even before our restructuring announcement, we were working on improving our infrastructure to support a focus on discrete market segments. Our primary approach to this is through our database marketing capability.

We now have a database with information about nearly 75 million customers. We know their wants, needs, buying patterns, and preferences.

COST STRUCTURE

We're going to continue improving our cost structure. You can't hide cost inefficiencies in a bundle. Each of the components in our bundles will be cost competitive on its own.

TECHNOLOGY

We'll continue to use technology to support our brand and our bundles. Based onindependent surveys and industry awards, communications services customers consistently associate the best technology with AT&T.

We're using this technology to develop our on-line offers. And we're using it to improve wireless services. High quality technology matters to customers. Ina world with choices, consumers seldom opt for old technologies to solve new problems.

ALLIANCES

Alliances offer another way to build bundled offers. Alliances will speed time to market and ease the financial burdens of entering new markets. Companies are selectively seeking partners with resources that complement their own.

For example, we've effectively used alliances in areas other than local service to enhance customer bundles. We've begun joint marketing with Continental Cablevision in the Chicago area for long distance and cable services.

So that's the high level view of our bundles and how we're going to support them. I'd like to make just one last point today. For brands and bundles to work best for customers and shareowners, we have to have full and fair competition.

Absent competition -- the best interests of consumers, businesses, and ultimately shareowners, will not be served.

But I believe customers and shareowners will be served. I believe we are going to see increased competition in the U.S. for all

communications services. And I know we are looking forward to an expanded competitive environment.

In this environment, we will provide services both _ la carte and in bundles. We'll segment markets better and achieve faster and richer revenue growth. You're going to see our productivity increase and our costs continue to decrease.

We're going to provide the full range of services and bundles, deliver them nationally, and support them with 24-hours-a-day-7-days-a-week customer service.

As the barriers break down and competition increases, we're ready to seize and create opportunity. Just how big is the opportunity we face? By meeting our challenges and seizing our opportunities, we can become -- at least -- a $100 billion business in about ten years. And we expect about half of our revenues to come from new growth areas.

We have the industry's most powerful brand, we're developing the bundles customers want, and we're going to be the same kind of leader in the future that we've been in the past.

If you think I'm optimistic about AT&T's future, you're right. But it's not the optimism of the New Jersey Nets' fan who thinks the Nets are going to the NBA finals. It's the optimism of a person who knows that the team he's on is already performing like the Chicago Bulls.

It's an optimism based on the power of our brand, solid data from the marketplace, and our relentless attention to keeping our customers -- and shareowners -- satisfied

Thank you.