getting its permission for that ownership change. The dangers proposed by such exemptions are manifold. Indeed, this week's announcement of SBC Communications' plans to take over Pacific Telesis highlight the point that Pacific Telesis affiliates need to be subject to these oversight mechanisms.

Indeed, the need for continued Commission supervision is clear. PB Com's description of its proposed construction, for example, is evasive; PB Com states that it "*may* construct *one or more* switches . . . and may lay cable in public rights of way." App. at 3 (emphasis added). Where this proposed development will take place is also unclear; PB Com's map identifying the location of the proposed construction shades a large portion of the state, including every large metropolitan area. *See*, App. at Ex. C. Thus, while PB Com hints that it may not construct any facilities, its application leaves open the door for the construction of a vast, state-wide telecommunications network.

1. PB Com's own customer estimates belie any claim that it is non-dominant.

PB Com's application indicates that it will start with no customers, only four officers, no employees and minimal cash; yet, within a year, PB Com projects that it will have one million (1,000,000) customers and within five years will have four million (4,000,000) customers. Clearly, PB Com is banking on the market strength and financial resources of its corporate parent. And with help from the dominant and historical monopoly local service provider, its sibling Pacific Bell, PB Com can hardly be treated as the neophyte that it claims to be. The Commission should dismiss out of hand any effort to characterize PB Com as "non-dominant."

2. PB Com's voluminous proposed tariffs indicate its sophistication.

That PB Com is no ordinary newcomer to California telecommunications markets is amply demonstrated by the hundreds of pages of proposed tariff sheets submitted to fulfill rule 18(h)'s requirement of a statement of proposed rates. These tariffs will have to be carefully

reviewed to ensure that they do not reflect discrimination by Pacific Bell in favor of PB Com and against competitors. PB Com's voluminous tariffs will have to be scrutinized by the parties and this Commission to ensure that they comply with the Commission's applicable decisions and regulations.

3. PB Com's name suggests a joint marketing strategy.

Pacific Bell currently markets on the Internet with the domain name of "PACBELL.COM" and the same domain name is advertised over the airwaves on radio and television. The choice of the name of the applicant in this proceeding hardly seems an accident. Indeed, Pacific Bell (and its corporate parent) have seemingly embarked on a strategy to bolster PB Com's competitive position with a healthy dose of joint marketing and consumer name recognition. Once again, PB Com is not just an unsophisticated newcomer; it is a highly advantaged, well positioned market entrant.

4. PB Com may be able to use Pacific Bell's trade name and marks.

A closely related issue also demonstrates that PB Com is not properly treated as a non-dominant carrier: nothing in its application precludes it from using its corporate parent's trade name and marks. As this Commission well knows, Pacific Bell has for years invested heavily to ensure a strong name recognition. If its affiliate is permitted to capitalize on that investment, then it will again be placed in a competitively advantaged position.

5. PB Com could also become dominant overnight with only a portion of its affiliate's customers.

PB Com's claim to be a non-dominant carrier is also suspect because at least in the local exchange market the only source for its projected one million first year customers is its sibling, Pacific Bell.[7] The Commission should adopt safeguards to prevent Pacific Bell from

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[7] A small portion of this customer base might come from customers currently served by GTE California, Inc.

thwarting both competition and Commission regulation by allowing PB Com to use its exhaustive customer lists, by offering bundled service packages that include PB Com services, or by withdrawing from local market segments in favor of its affiliated namesake.

All of these concerns show that PB Com is not a non-dominant carrier. It accordingly should not be treated as such by this Commission.

D. The Commission Should Exercise Its Authority To Protect Consumers And The Public Interest And It Should Prevent The Evasion Of Regulation Of Pacific Bell.

Over the past few years, this Commission has developed a comprehensive regulatory framework for Pacific Bell and its affiliates, including price caps, affiliate transaction rules, non-discrimination safeguards and others items. Nothing in TA96 dismantles these oversight mechanisms, and the Commission's regulation of Pacific Bell and its affiliates will continue for the foreseeable future. PB Com's application to provide a broad spectrum of telecommunications services should be evaluated in light of this framework, and part of the inquiry in this proceeding should be devoted to ensuring that PB Com is not used to escape proper and continuing regulation of Pacific Bell.

PB Com seeks not just to provide long distance service, but to provide a full range of end to end telecommunications services. That request raises special concerns. Particularly if PB Com is given "nondominant" carrier status, it will not be subject to the same regulations as Pacific Bell. Any difference in regulation could thus be exploited or avoided by selective use of the affiliate. The Commission needs to inquire into how PB Com will operate, consider whether overlapping Pacific Bell and PB Com operations should be eliminated, and provide safeguards to protect its continuing regulation of Pacific Bell.

E. The Application Should Be Denied Because PB Com Has Not Bothered To Provide The Information Required Of Other CLC Applicants By This Commission.

PB Com seeks to become both a facilities-based and non-facilities-based competitive local carrier ("CLC"). The application, though, does not expressly state that such

authority is sought and in any event the application does not comply with the Commission's requirements for CLC applications spelled out in D. 95-07-054. For instance, section 4.B of appendix A of that decision spells out the financial standards for certifying CLCs and the financial instruments that are acceptable; in all instances, a CLC entrant must be able to demonstrate cash liquidity or a guaranteed, year-long irrevocable source of credit totaling at least $100,000.

The only apparent effort made to comply with this requirement is Exhibit D, a letter to the Commission from PB Com's corporate parent. That letter does not come close to satisfying the acceptable financial instruments that are spelled out in the decision. Under no circumstances could the qualified statements made in Exhibit D amount to an irrevocable guarantee to supply funds to PB Com; nor does the statement even purport to be irrevocable for a period of at least twelve months beyond the certification of the applicant. Moreover, Pacific Telesis will be eliminated under the proposed purchase by SBC Communications, making the promises in the letter worthless.[8]

PB Com has not even gone to the trouble of satisfying the requirements that other CLCs had to show in order to be granted authority to provide local exchange service. Apparently, PB Com feels that being an affiliate of Pacific Telesis and Pacific Bell is sufficient in and of itself. If anything, however, PB Com's close corporate relationships with Pacific Telesis and Pacific Bell compel an even more exacting showing than that required of other CLCs.

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[8] The only evidence of PB Com's financial ability is set forth in a mere letter from its corporate parent which indicates that Pacific Telesis will provide up to $540,000 to PB Com for 1997 if PB Com is unable to generate independent financing. Such a showing is wholly inadequate, particularly where the applicant itself expects to serve 1,000,000 customers after its *first* year of operation. PB Com's application should be denied unless it discloses how it plans to finance its anticipated large operations. Even with that information, close scrutiny will be required.

F. The Recently Announced Acquisition of Pacific Telesis By SBC Communications Further Complicates The Issues In This Proceeding.

The events of April 1st have added even further complexity to this already complicated application proceeding. The company that has provided telecommunications service to the majority of California residents for the past ninety years is being taken over by an out of state entity, SBC Communications. The impacts of this proposed transaction on this application will need to be carefully examined before any affiliate of Pacific Bell (or SBC Communications) enters California's interLATA markets. The issues raised by the take-over range from satisfaction of the prerequisites set forth in the Costa Bill and TA96 to the evasion of appropriate regulation. Unquestionably, this week's surprise developments dictate further caution.

V. FACTS WHICH SHOULD BE DEVELOPED AT PUBLIC HEARINGS

In order to fully evaluate the numerous shortcomings in PB Com's application , and to analyze the multitude of issues discussed above, the Commission will have to hold hearings. At these hearings, the Commission should develop the facts needed for a full and complete evaluation of the foregoing issues. Among these facts, the Commission's hearings should determine whether Pacific Telesis has complied with all state and federal requirements, as it indicates it is prepared to do. Thus, the Commission should determine through public hearings:

- Whether all competitors of PB Com and Pacific Bell have fair, nondiscriminatory, and mutually open access to the exchanges, including fair unbundling of exchange facilities, and whether the price of such access and interconnection is based on the cost of providing such access in accordance with TA96[9];

- Whether there is any risk of anticompetitive behavior by Pacific Bell and PB Com, including any unfair use of subscriber information or unfair use of customer

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[9] TCG and CCTA do not support this assertion and believe that the FCC will determine the applicability of sections 251(c)(3) and 252(d)(1) to exchange access services.

contacts and, if so, how such risks can be contained;

- Whether there is a risk of improper cross-subsidization of interexchange service by Pacific Bell and PB Com;

- Whether the accounting records of PB Com will meet the requirements set forth in California Public Utilities Code section 709.2(c)(3);

- Where there is any substantial possibility of harm to the competitive intrastate interexchange telecommunications markets caused by granting PB Com the authority sought in its application;

- Whether Pacific Bell has successfully negotiated or arbitrated an interconnection agreement meeting the requirements of TA96, under which Pacific Bell is providing access and interconnection to a facilities-based competitor;

- Whether any such interconnection agreements have been approved by the Commission, and whether they meet the detailed criteria of the competitive checklist set forth in TA96;

- Whether PB Com will operate independently from Pacific Bell and Pacific Telesis;

- Whether PB Com and Pacific Bell are improperly sharing operations and facilities, including but not limited to, real estate, personnel and other matters;

- Whether PB Com will maintain separate books, records and accounts as required by TA96;

- Whether PB Com will have separate officers, directors and employees from Pacific Bell;

- Whether PB Com is relying upon any credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of Pacific Bell;

- Whether PB Com will conduct its operations such that any dealings with Pacific Bell are at arm's length, with all such transactions reduced to writing and available for public inspection;

- Whether Pacific Bell will provide nondiscriminatory access to its competitors on the same terms and conditions offered to PB Com;

- Whether PB Com is a nondominant carrier;
- Whether PB Com will be able to operate in a manner that will allow Pacific Bell to evade proper Commission regulation;
- Whether granting the authority sought is consistent with the Commission's existing regulatory framework for telecommunications providers, including local exchange carriers;
- Whether PB Com has cash liquidity or a guaranteed, year-long irrevocable source of credit totaling at least $100,000;
- Whether PB Com is financially able to provide its proposed service;
- Whether PB Com's proposed tariffs are consistent with all applicable requirements, including prior Commission decisions and regulations, and whether the proposed tariffs discriminate against any competitor;
- Whether the service proposed by PB Com will promote the public interest;
- Whether PB Com's application is in the public interest.

Of course, many of these factual issues are complicated and require broad inquiry. Indeed, that inquiry may reveal additional issues that must be addressed before any CPCN is issued to PB Com. Appropriate schedules should accordingly be discussed at the prehearing conference.

The Commission should also require that Pacific Bell, Pacific Telesis and SBC Communications be made parties to this proceeding.

VI. CONCLUSION

For the reasons stated, the Commission should dismiss this premature application or hold it in abeyance pending satisfaction of the prerequisites for entry by a Pacific Bell affiliate into California's interLATA markets. The Commission should also withhold action on this application pending hearings.

DATED: April 5, 1996.

McCUTCHEN, DOYLE, BROWN & ENERSEN, LLP

By: _____
TERRY J. HOULIHAN
Attorneys for Protestant
AT&T Communications of California, Inc.

Exhibit 3

US OFFICE PRODUCTS

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

AMERITECH COMMUNICATIONS OF ILLINOIS, INC.	)	
	)	DOCKET NO. 95-0443
Application for Certificate of Service Authority to Provide Interexchange and Local Exchange Telecommunications Services Within The State of Illinois Pursuant to Sections 13-403 and 13-404 and Exchange Service Pursuant to Section 13-405 of the Public Utilities Act	)	

MOTION OF AMERITECH COMMUNICATIONS OF ILLINOIS, INC.
FOR LEAVE TO AMEND ITS AMENDED APPLICATION

Ameritech Communications of Illinois, Inc. ("ACII"), by its attorney, requests pursuant to 83 Ill.Adm.Code Section 200.140 that the Hearing Examiner enter an order granting it leave to amend its Amended Application in this proceeding to withdraw that portion of its Amended Application which seeks a Section 13-405 certificate in Ameritech Illinois exchanges statewide. In support of its Motion, ACII states as follows:

1. On September 1, 1995, Ameritech Communications, Inc. filed its Application seeking authority pursuant to Sections 13-403 and 13-404 of the Illinois Public Utilities Act, 220 ILCS 5/13-101 et seq., to offer intraMSA interexchange services statewide and pursuant to Sections 13-404 and 13-405 to offer local exchange services in Centel exchanges in MSA-1 and in Ameritech Illinois exchanges statewide.

2. On February 8, 1996, President Clinton signed the new Telecommunications Act of 1996 ("the Federal Act") pursuant to which an Ameritech subsidiary will be permitted to offer interMSA services in Illinois.

3. In April, 1996, ACII was permitted to amend its Application. The Amended Application changed the initial Application in three primary respects: (a) it changed the entity seeking certification from Ameritech Communications, Inc., a wholly-owned subsidiary of Ameritech Corporation to Ameritech Communications of Illinois, Inc., a wholly-owned subsidiary of Ameritech Communications, Inc.; (b) it included a request for interMSA interexchange authority statewide in addition to intraMSA interexchange authority; and (c) it expanded the scope of local exchange authority sought pursuant to Sections 13-404 and 13-405 of the Act to include not only Ameritech Illinois exchanges statewide, but also Centel and GTE exchanges statewide.

4. ACII seeks to withdraw without prejudice that portion of its Amended Application seeking local exchange authority pursuant to Section 13-405 of the Illinois Public Utilities Act in Ameritech Illinois exchanges.

5. No testimony or evidence has been taken in this proceeding to date and the granting of this Motion For Leave to Amend the Amended Application would not adversely affect any of the intervenors or parties to this proceeding.

WHEREFORE, ACII requests that the Hearing Examiner enter an order granting it leave to amend its Amended Application by withdrawing without prejudice that portion of its Amended Application which seeks a Section 13-405 certificate in Ameritech Illinois exchanges statewide.

Respectfully submitted,

Nancy H. Wittebort

Nancy H. Wittebort
Attorney for Ameritech
Communications of
Illinois, Inc.

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225 West Randolph Street 27C
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(312) 727-4517

Dated: July 11, 1996

Exhibit 4

US OFFICE PRODUCTS

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the application of AMERITECH COMMUNICATIONS, INC., for a license to provide basic local exchange service in Ameritech Michigan and GTE North Incorporated exchanges in Michigan.	)	Case No. U-11053

At the August 28, 1996 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. John G. Strand, Chairman
Hon. John C. Shea, Commissioner
Hon. David A. Svanda, Commissioner

SEP 0 4 1996

ORDER APPROVING APPLICATION

I.

HISTORY OF PROCEEDINGS

On March 1, 1996, Ameritech Communications, Inc., (ACI) filed an application for a license to provide basic local exchange service in all of the exchanges in Michigan served by Ameritech Michigan and GTE North Incorporated (GTE). In so doing, ACI also requested authority to provide basic local exchange service on a resale basis.

At a March 18, 1996 prehearing conference, Administrative Law Judge Frank V. Strother (ALJ) allowed Attorney General Frank J. Kelley (Attorney General), GTE, and the Commission Staff (Staff) to participate in the proceedings. However, he denied the petitions for leave to

intervene that were filed by MCI Telecommunications Corp. and MCI Metro Access Transmission Service, Inc., (collectively MCI), AT&T Communications of Michigan, Inc. (AT&T), Sprint Communications Company L.P. (Sprint), TCG Detroit (TCG), and Comcast Corporation.

The ALJ's ruling was appealed by MCI, AT&T, Sprint, TCG, and Comcast. In an order issued April 10, 1996, the Commission concluded that the ALJ's rulings concerning the interventions filed by MCI, AT&T, Sprint, TCG, and Comcast should be reversed.

An evidentiary hearing commenced on April 24, 1996 and concluded June 3, 1996. Eleven witnesses testified and 39 exhibits were received into evidence.

On June 17, 1996, briefs were submitted by ACI, the Attorney General, AT&T, Comcast, MCI, TCG, Sprint, and the Staff. On June 24, 1996, reply briefs were submitted by ACI, the Attorney General, AT&T, Comcast, MCI, and TCG.

On July 19, 1996, the ALJ issued his Proposal for Decision (PFD), which recommended that ACI's application be granted.

On July 29, 1996, exceptions to the PFD were filed by the Staff, the Attorney General, AT&T, MCI, TCG, and Comcast. On August 5, 1996, replies to exceptions were filed by ACI and TCG.

II.

POSITIONS OF THE PARTIES

ACI

ACI presented the testimony of 6 witnesses and offered 8 exhibits that were received into evidence. ACI, a Delaware corporation, is a wholly-owned subsidiary of Ameritech Corpora-

tion. ACI was formed to provide interLATA, intraLATA, and basic local exchange services on a bundled basis to business and residential customers in Michigan.

ACI maintains that its corporate existence and structure are attributable to recent national and state policy determinations that favor reliance upon competition rather than government regulation to establish prices, terms, and other conditions of providing telecommunication services. ACI stresses that, as a result of these developments, many telecommunication providers, including several of the intervenors in this proceeding, have received licenses to provide basic local exchange service in selected exchanges in Michigan. According to ACI, such providers are now positioned to offer bundled telecommunication services, including basic local exchange, intraLATA toll, and interLATA long distance services. Because these companies will be competing with Ameritech Michigan for basic local exchange service customers, ACI maintains that Ameritech Michigan is disadvantaged because it cannot now bundle basic local exchange service with long distance service.

ACI states that the federal Telecommunications Act of 1996, which amended the Communications Act of 1934, 47 USC 151 et seq., (FTA) and the Michigan Telecommunications Act, 1991 PA 179, as amended by 1995 PA 216, MCL 484.2101 et seq.; MSA 22.1469(101) et seq., (MTA) recognize the importance of allowing local exchange providers to offer long distance services. It notes that one of the provisions in the FTA calls for in-region long distance services provided by Regional Bell Operating Companies (RBOCs) to be offered only through a separate subsidiary of the RBOC. In the case of Ameritech Michigan, that separate subsidiary is ACI.

ACI points out that although it is a wholly-owned subsidiary of Ameritech, it is related to Ameritech Michigan only in the sense that both entities are wholly-owned by the same parent

company. ACI states that it has a separate organizational structure from Ameritech Michigan, with entirely different officers and personnel. According to ACI, all transactions between itself and Ameritech Michigan regarding telecommunication products and services will be reduced to writing and similar transactions will be offered by Ameritech Michigan to other telecommunication providers on a nondiscriminatory basis.

ACI maintains that allowing it to provide basic local exchange service clearly furthers the purposes of the MTA by encouraging competition. ACI also contends that its entry into the marketplace will facilitate the introduction of new services and will lead to the development of new technologies.

At the heart of ACI's marketing plan is the concept of "one-stop shopping." According to ACI, many customers prefer to purchase all of their telecommunication services from a single provider. ACI insists that one-stop shopping is attractive because some customers still do not realize that there is a difference between their local and long distance providers. Moreover, ACI insists that even knowledgeable telecommunication consumers prefer the convenience of receiving one bill for all of their telecommunication services from a single provider.

ACI argues that denial of its application will be harmful to the public interest. According to ACI, the history of the long distance market demonstrates that the first company to be able to bundle services for customers will undoubtedly have an advantage that other providers will find difficult to overcome. Citing AT&T's current 60% share of the long distance market, ACI is concerned that if it is not able to bundle local and long distance services, then it will be at a significant competitive disadvantage. Accordingly, ACI stresses that failure to approve its license application will thwart competition by ensuring the continued market dominance of

AT&T. Finally, because ACI and Ameritech Michigan intend to comply fully with all existing FTA and MTA safeguards, ACI insists that the Commission should not attach any of the conditions to its license that have been proposed by the Staff and intervenors.

AT&T

AT&T presented the testimony of 2 witnesses and offered 2 exhibits, which were received into evidence. AT&T argues that this case is unique because Ameritech does not need to obtain a "duplicate" license for ACI in order to provide basic local exchange service in the exchanges that are already served by Ameritech Michigan. Further, AT&T points out that if Ameritech Michigan desires to extend its service territory into areas that are now served by GTE, it could simply apply for a license in the name of Ameritech Michigan.

AT&T argues that Ameritech's pursuit of a license for ACI is motivated by a desire to hinder the development of competition in the local exchange market and to unfairly gain market share in the long distance market. Accordingly, AT&T insists that any license granted to ACI must be conditioned to ensure that Ameritech Michigan's overwhelming market dominance in the local exchange market does not extend into the long distance market. AT&T contends that, without effective safeguards, Ameritech will be able to unfairly channel funds and in-kind benefits directly to ACI. Citing Ameritech's vast array of assets, personnel, and intellectual property that was financed by captive customers, AT&T argues that the Commission should not stand by while Ameritech siphons those assets away from the parent corporation in order to perpetuate its monopoly status in the local exchange market or to extend its dominance into the long distance market.

AT&T argues that, to protect the public, the Commission should require ACI to function as a separate company from Ameritech Michigan and should also require Ameritech Michigan to pledge that it will be bound by the letter and the spirit of the Commission's determinations in this proceeding. AT&T also argues that ACI should be required to act strictly as a reseller and not as a facilities-based provider. It also suggests that the Commission should require that ACI's local exchange license be surrendered when Ameritech is no longer subject to the separate subsidiary requirement of the FTA. Further, AT&T proposes myriad other conditions that restrict ACI's and Ameritech Michigan's marketing practices, including restrictions on the use of names that are used by Ameritech Michigan for marketing its services, although AT&T concedes that ACI should be authorized to use the term "Ameritech" in the name of its services. Other conditions recommended by AT&T include requirements that (a) the substance of all transactions between ACI and other Ameritech affiliates should be reduced to writing and provided to the Staff and other parties for review, (b) ACI should furnish cost studies for each service that uses or resells any goods, services, or capabilities obtained from other Ameritech subsidiaries, and (c) ACI should provide quality reports to the Commission that are comparable to the reports filed by Ameritech Michigan, which will enable the Commission to compare the quality of service provided to customers by ACI with that provided by Ameritech Michigan. Finally, AT&T argues that the Commission should restrict ACI's access to customer proprietary network information except to the extent that the same information is made available to other providers.

Comcast

Comcast, which presented the testimony of 1 witness and 2 exhibits, urges the Commission either to deny the application or to impose an array of conditions on any license granted to ACI. According to Comcast, Ameritech Michigan's past history of thwarting its competitors at every turn justifies a finding that ACI will be the beneficiary of cross-subsidization and preferential treatment from Ameritech, which will enable ACI to acquire Ameritech Michigan's most lucrative customers, thereby preserving its monopolistic hold on the marketplace for local exchange service. Comcast also argues that ACI has not demonstrated that it possesses sufficient technical, financial, and managerial resources and abilities to provide basic local exchange service to every person in the geographic territory area of its license. Accordingly, Comcast doubts that ACI will be able to provide basic local exchange service in any manner without harming the public interest.

TCG

TCG argues that ACI's application is a novel case that requires intense scrutiny by the Commission due to the possibility that Ameritech Michigan might use its monopoly status to obtain an uncompetitive advantage for ACI. According to TCG, ACI's application is nothing more than a transparent effort by Ameritech Michigan to circumvent existing competitive safeguards that, if granted, will restrain competition and increase monopolization of the telecommunication marketplace by Ameritech Michigan and ACI. TCG insists that the hidden agenda underlying ACI's application is to provide Ameritech with support for its position regarding its compliance with the competitive checklist requirements contained in Section 271 of the FTA, 47 USC 271, which is necessary for Ameritech to obtain approval from the Federal Communica-

tions Commission (FCC) to provide interLATA service. Moreover, TCG argues that the descriptions of Ameritech Michigan's planned operating relationship with ACI demonstrate that the structural separation and other regulatory requirements embodied in the FTA and the MTA will not protect customers or foster the growth of competition. Citing the potential that Ameritech Michigan may show favoritism to ACI through the provision of non-service advantages or may attempt to cross-subsidize ACI's operations through asset transfers, TCG maintains that there is significant potential that Ameritech Michigan will monopolize the telecommunication marketplace and impede the development of competition absent appropriate safeguards. Indeed, TCG's most significant concern is that ACI may be able to establish a foothold in the marketplace before other competitors are able to do so. For these reasons, TCG argues that the Commission should deny ACI's application.

Staff

The Staff presented the testimony of 1 witness and 27 exhibits. In so doing, the Staff questioned the level of proof submitted by ACI regarding its technical, financial, and managerial abilities to comply with the requirements of Section 302 of the MTA. According to the Staff, ACI did not submit its own annual financial statement or balance sheet. Rather, as the Staff points out, ACI's support consisted largely of financial information pertinent to Ameritech and some testimony that Ameritech intends to stand behind ACI's financial obligations. However, the Staff stresses that ACI's presentation did not quantify Ameritech's level of commitment to ACI.

The Staff also contends that granting ACI a license will not, in and of itself, increase competition. In this regard, the Staff emphasizes that the proper focus of Section 302(1)(b) of

the MTA is on the effectiveness of competition, not merely on increasing the number of licensees. The Staff is particularly concerned by the effect on the public interest of authorizing one corporation to hold two licenses to provide basic local exchange service in the same areas in light of ACI's acknowledgment that ACI was not created to compete with Ameritech Michigan.

The Staff is also troubled by the application because, in its opinion, Ameritech Michigan's provision of basic local exchange service does not have to be duplicated by ACI in order for Ameritech to jointly market basic local exchange and interLATA services in Michigan. According to the Staff, nothing in the FTA prohibits Ameritech from establishing a joint marketing program that would provide its customers with one-stop shopping. Moreover, the Staff stresses that the separate subsidiary requirement in the FTA may be short-lived and could disappear in as few as three years.

Finally, the Staff states that the Commission should give significant consideration to the interests of Ameritech Michigan's customers in determining whether the application should be granted. In particular, the Staff argues that the Commission should consider the effect on customers who elect to take interLATA toll service from a provider other than ACI and to take basic local exchange service from Ameritech Michigan. According to the Staff, this group of customers should be no worse off in terms of service, price, quality, and new product availability than they would have been absent the licensing of ACI. Finally, arguing that the FTA and the MTA protections may not be sufficient, the Staff urges the adoption of several conditions as prerequisites to the licensing of ACI. Among the conditions recommended by the Staff is a requirement that the effective date of ACI's license should coincide with the FCC's approval of ACI's entry into the Michigan interLATA toll market. Additionally, the Staff recommends that

the Commission consider requiring the surrender of ACI's license in the event that the separate subsidiary requirement in the FTA is rescinded. Finally, the Staff recommends that the Commission require ACI to provide basic local exchange service only through the resale of services.

MCI

MCI argues that Ameritech's interest in this proceeding stems from its desire to compete in the interLATA market. Accordingly, MCI characterizes ACI's application as an end-run around regulations that were meant to prevent Ameritech from extending its dominance in the local exchange market into the interLATA market. Indeed, MCI insists that Ameritech's primary motivation is not to promote competition in the local exchange market, but to stifle competition in the interLATA market.

MCI urges the Commission to prevent Ameritech from accomplishing its objectives. MCI argues that the Commission should treat Ameritech and ACI as if they were one entity and should require ACI to adhere to numerous conditions designed to keep it on the same playing field as the rest of the competitors.

Sprint

Sprint urges the Commission to scrutinize carefully the relationship between Ameritech Michigan and ACI to ensure that ACI will not receive more favorable treatment from Ameritech Michigan than will other entrants into the local exchange market. To this end, Sprint argues that the Commission should impose an explicit condition on ACI's license that would require Ameritech Michigan to extend "most favored provider" status to unaffiliated providers. Accord-

ing to Sprint, all competitors should be able to obtain the same deals that Ameritech Michigan offers to ACI.

Sprint also insists that the Commission must ensure that ACI does not obtain information and services from Ameritech Michigan on a more favorable basis than will be available to other competitors. To accomplish this objective, Sprint insists that the Commission should require ACI to purchase services from Ameritech Michigan only pursuant to tariff rates that are available to all other providers. Finally, Sprint suggests that the Commission should exercise sufficient regulatory oversight to enable it to order ACI to discontinue any form of anticompetitive conduct, discriminatory treatment, or cross-subsidization that adversely affects the marketplace.

Attorney General

The Attorney General argues that the most critical aspect of this proceeding involves a determination whether granting a license to ACI would adversely affect the public interest. He states that ACI status as an affiliate of Ameritech Michigan requires adoption of safeguards to ensure the continued growth of meaningful and effective competition. In particular, the Attorney General insists that ACI is well positioned to benefit from the advance disclosure of information by Ameritech Michigan to the detriment of its competitors. Accordingly, the Attorney General contends that the Commission should protect the public interest by imposing many of the conditions on ACI's license that were recommended by the Staff and intervenors.

III.

PROPOSAL FOR DECISION

The ALJ found that ACI possesses the requisite technical, financial, and managerial resources and abilities to provide basic local exchange service to every person in the exchanges covered by the application. In arriving at this determination, the ALJ first noted that ACI initially planned to provide service to customers by purchasing, repackaging, and reselling service to its customers. Only after establishing its presence, would ACI consider whether it should become a facilities-based provider. Based on ACI's description of its technical expertise, which was unrefuted, the ALJ found that ACI had demonstrated its technical capability to provide service in the manner proposed in the application.

Second, the ALJ found that ACI's senior management team has the knowledge and expertise necessary to properly conduct the proposed operations. In so concluding, the ALJ rejected Comcast's argument that ACI's management team failed to demonstrate sufficient familiarity with ACI's proposed operations in Michigan to support a finding that ACI will be effectively managed.

Finally, the ALJ found that ACI does have the financial ability to provide the services proposed in its application. However, in reaching this conclusion, the ALJ expressed astonishment at the apparent lack of knowledge possessed by ACI's witnesses regarding the company's current financial arrangements. Indeed, the ALJ noted that most of the evidence produced by ACI focused upon the financial resources and capabilities of its parent, Ameritech. Nevertheless, even absent a more detailed explanation regarding ACI's financial resources, the ALJ