

switches in Southfield and Detroit,<sup>73/</sup> respectively, which permit it to offer facilities-based local service over its 100+ route-mile fiber-optic network in the greater Detroit area. It has been providing resale-type local service to business customers in the area since 1991, and access services to large businesses and government agencies since September 1995.<sup>74/</sup> MFS is now marketing a full range of services including local service, domestic and international long distance, 800/888 services, data transmission, internet access, calling card, voice mail, conference calling and management reports.<sup>75/</sup>

MFS's corporate structure suggests a three-pronged strategy for the local exchange market: (1) MFS Telecom Products provides digital private line (access) and SONET-based services; (2) MFS Datanet provides internet exchange, high-speed data links, multipoint video services, ATM services and the like; and (3) MFS Intelenet Inc. provides local and long distance services, enhanced services (voice mail, conference calling, enhanced fax), and toll-free services to both businesses and multi-family dwelling units.

Although most of MFS's services are geared to business, MFS supplies local exchange service to the residential segment through its service to MDUs. MFS also provides

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<sup>73/</sup> See Ameritech responses to Attachment A of the MPSC's Case No. U-11104, In the Matter, On the Commission's Own Motion to Consider Ameritech Michigan's Compliance with the Competitive Checklist in Section 271 of the Telecommunications Act of 1996, Table 6.a.1, Description of CLEC Network Architectures. See also Appendix A of this affidavit.

<sup>74/</sup> "MFS Now Offering Local Telephone Services Over Its Own Fiber Network in Detroit," *PR Newswire*, May 29, 1996. (Also included in Appendix A to this affidavit.)

<sup>75/</sup> Id. and MFS marketing materials.

local exchange service indirectly to residences through arrangements with AT&T and MCI. In these arrangements, the IXC's provide marketing and name recognition to obtain customers, and MFS gains customers, minutes, and revenues on its network. MFS's acquisition of UUNet, an internet access provider, enables MFS to integrate internet services into its product offerings and increases the customer base to which the company can sell all of its services.<sup>76/</sup>

MFS's 1994 acquisition of RealCom Office Communications, Inc. and Centex, a San Francisco-based toll aggregator that offers integrated local and long distance services to business customers, nearly tripled MFS Intelenet's customer base and provided the company with a sales force knowledgeable about business exchange, access, and interexchange calling patterns.<sup>77/</sup> Like TCG and Brooks, investors have a positive outlook for MFS's prospects. Indeed, as shown in Table IV.4, investors believe that each dollar of currently invested MFS telco plant has a value over \$5.00.

e) *Multi-Family Dwelling Unit Providers*

In addition to the currently active facilities-based local exchange companies such as Brooks, MCI, MFS, and TCG, the local exchange business also has facilities-based carriers that do not require MPSC certification and therefore fly beneath the regulatory radar screen of Table IV.2. We refer here to local exchange providers to multi-family dwelling units (MDUs).

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<sup>76/</sup> "MFS and UUNET Announce Merger Agreement to Form Premier Internet Business Communications Company," *PR Newswire*, April 30, 1996.

<sup>77/</sup> MFS 1994 Annual Report, p. 16.

There is no official record or documentation of MDU service providers because they market to private property owners, not directly to the public. However, MDUs are CLECs in every sense of the term: they provide local exchange service either through resale or using their own facilities, and they are competitive with Ameritech. They also present a very important example of how entrants with very little capital can have a significant impact on the market as a whole.<sup>78/</sup>

Table IV.5 lists some of the MDU service providers active in Ameritech's Michigan service area. The providers include the already-described active local exchange companies such as Brooks Fiber and MFS/Worldcom as well as US West (through Continental Cablevision); long distance companies such as ICS/MCI;<sup>79/</sup> cable TV companies such as Jones and Peoples' Choice TV; and large investment companies such as GE Capital/ResCom. Table IV.5 also shows the method of implementation: facilities-based (via a PBX) or resale (via Centrex services).

By definition, MDU service providers are following a highly focused business strategy of targeting multi-family dwelling units such as high-rise apartment buildings and apartment complexes. Because of their very high concentration of end-users and intensive use of "inside wiring," MDUs are the least costly residential customer group to serve. Many MDU service providers also employ a bundling strategy: they offer service packages combining local, long distance, cable TV, security, and even energy management services. As noted by

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<sup>78/</sup> See "MDU Providers Emerging as Hotbed for Services," *Interactive Video News*, Vol. 4, Issue 20, September 30, 1996.

<sup>79/</sup> ICS is bankrupt, but its contracts remain in force and are being sold.

one service provider, "You name the service and this company is going to provide it. Companies like ours are literally becoming gatekeepers in an industry made up of high-density, residential housing."<sup>80/</sup>

In addition, the business strategy of many MDU service providers has a very distinctive and important competitive feature: the use of long-term contracts with property owners. A long-term contract creates an asset whose value is the expected future cash flow from the telephone service in the dwelling units. The participation of GE Capital in the MDU service market is an example of a firm that understands the economics of securitization (e.g., structuring assets through the use of the long-term contract) and underscores the economic importance of this phenomenon. The company has sales offices in all of Ameritech's territories and is successful in obtaining customers.<sup>81/</sup>

MCI also appears to understand the new developments in the MDU market segment. It has obtained an agreement with the National Building Owners and Management Association (BOMA) to serve as a preferred provider. This means that MCI and BOMA have created model agreements for use by property owners and managers that would utilize MCI's services for BOMA members.<sup>82/</sup>

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<sup>80/</sup> "MDU Market Emerging as Hotbed for Services," *Interactive Video News*, September 30, 1996.

<sup>81/</sup> GE Capital/ResCom marketing brochures, proposals. Included in Appendix A to this Affidavit.

<sup>82/</sup> See BOMA/MCI announcement in Appendix A.

MDU providers, even those who are resellers, can increase competitive pressure in local exchange services by reducing the entry risk of facilities-based entrants (especially those who choose to install their own infrastructure). Hence, there is a natural progression from beginning as a pure reseller of telecommunications services (such as Centrex and long distance), migrating to a facilities basis (using a PBX), and then eventually selling out to a facilities-based CLEC such as Brooks or MCI Metro once the number of MDU units reaches an economic critical mass and the full-service CLEC builds infrastructure in the area.

*f) Currently Active Resellers of Local Exchange Service*

Like the MDU service providers, service integration is the key entry strategy characterizing many of the larger local exchange service resellers. From a competitive perspective, resellers act as independent sales agents for new facilities-based entrants. Once a critical mass of signed long-term contracts is reached, it is quite easy for the reseller to sell the assets to a facilities-based provider. In such a case, the entrant's risks of building facilities is eliminated (or, more properly, shifted over to the incumbent local service provider). In addition, many of the new local exchange resellers are already in business as long distance resellers, and so their entry is a product-line extension to an already established customer base.

**Table IV.5**  
**COMPETITIVE MDU SERVICE PROVIDERS**

Service Provider	Area		Provisioning	Comments (b)
	Illinois	Michigan	Method (a)	
<b>LOCAL TELEPHONE COMPANIES</b>				
BellSouth	Y	-	PBX/STS	RBOC with territory adjacent to Ameritech's.
Brooks Fiber	-	Y	CLEC	Across-the-board competition (i.e. business, residence, MDU) from this CLEC.
Southwestern Bell	-	-	-	Proposal to AMLI, a large property owner with interests in Illinois and Michigan.
Frontier Telemanagement	-	Y	CTX	Resale -- not known if PBXs are used as well.
MFS/Intelenet	-	Y	CTX/PBX	Both Centrex and PBX
Continental Cable/US West	-	Y	CTX/Cable	Licensed as CLEC Current MDU provider of cable TV.
<b>LONG DISTANCE COMPANIES</b>				
MCI	Y	-	Class 5	Active in Michigan via affiliation with BOMA.
<b>REAL ESTATE MANAGEMENT COMPANIES</b>				
Belmont Suites	Y	-	PBX/STS	Example of private network self-provisioning.
Building Comm Inc.	-	Y	CTX	Applied to become certified as a CLEC in Michigan.
Wedgewood Communications	Y	-	CTX	Sister company of Habitat Co, began selling to other apartment companies Spring 1996.
<b>CABLE TV AND SMATV</b>				
ICS(MCI)	Y	Y	PBX/Cable	Fast growth caused bankruptcy. 300,000 unit contracts to be sold. MCI major investor.
Jones Intercable	Y*	-	-	*Cable TV only in Illinois. Active MDU in Virginia.
Network Multi-Family	-	-	-	-
OpTel	Y	Y	PBX	Among the largest MDU providers. 300,000 units nationwide. Investing \$65 m in customer care facility in Dallas.
People's Choice TV	Y	Y	CTX/Cable	Phone service provided by US Telesys, LP. Active in Indianapolis, Chicago, Detroit.
<b>OTHER</b>				
GE Capital-ResCom	Y	Y	PBX/CTX	Signed Insignia Financial. Now has cable offering through ResNet obtained from TCI. Sales offices in Chicago, Detroit, Cleveland, Indianapolis.
Activitec	-	Y	CTX	-
Coast-to-Coast	-	Y	CTX	Applied for licensing as a CLEC in Michigan. Local and LD.
Mil-Tel Communications	Y	-	CTX	-
PhonCheck, Inc.	-	Y	-	-
Priority Link	-	Y	-	-
Proctor Home Warren, Inc	-	Y	CTX	Currently buys Centrex services -- may also use PBXs.
Resicom	Y	-	-	-
Tele-Phone	-	Y	CTX	Applied for CLEC states. Markets to Arab population in Detroit.
The Seneca	Y	-	PBX/STS	-
Western T&T	Y	-	PBX	-

(a) CTX = Centrex; PBX = Private Brand Exchange; STS = Shared Tenant Services; Cable = Cable TV

(b) Data sources include company brochures, investment analyst reports, trade journals, Ameritech provisioning data.

US Network (USN), the first company in the country to enter into a broad-based local service resale agreement with a BOC, did so with Ameritech. The agreement in Michigan extends over ten years with a commitment on USN's part to resell a minimum of 100,000 Ameritech lines during that time. Michigan has become one of the primary states in USN's strategy to provide a combination of resold local and long distance service. As noted by USN's president, J. Thomas Elliott, "We intend to be a leading sole source provider of telecommunications services to small businesses and mid-sized businesses across the country."<sup>83/</sup>

USN intends to extend its service offerings to residential customers as well. USN's agreement with Ameritech is the first resale agreement for the provision of services to both residential and business customers. USN said, "Naturally we're pleased to continue our relationship with Ameritech and we look forward to entering the Michigan market, in which the state's PSC has adopted aggressive pro-competitive telecommunications policies."<sup>84/</sup> USN has been certified in Michigan as both a reseller and a facilities-based entrant, suggesting that it may eventually incorporate some of its own facilities into its provisioning of local service.

Frontier Telemanagement is another reseller in Michigan. Although Frontier (formerly Rochester Telephone) has primarily been a long distance reseller, Michigan is one

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<sup>83/</sup> "US Network Corporation Announces Name Change to USN Communications," *PR Newswire*, July 9, 1996.

<sup>84/</sup> "US Network to Market Local, Long Distance Service in Michigan; Chicago-based Firm Signs Second Resale Agreement with Ameritech," *PR Newswire*, April 29, 1996.

of eight states where it has been concentrating its local service provisioning efforts. In fact, Frontier began marketing its local services to business customers in Michigan in the second quarter of 1996. Frontier says that the company "now offers local dial tone along with its other integrated telecommunications services. We offer the greatest range of services in the industry: competitive long distance rates, voice mail, toll-free 800 or 888 service, paging, cellular service in selected markets and now local service — all with the convenience of a single monthly invoice and a single source for premium customer service."<sup>85/</sup>

During 1995, Frontier acquired seven companies and merged with another, ALC Communications, creating the fifth largest long distance company in the country, with annual revenues of more than \$2.5 billion.<sup>86/</sup> These financial assets, combined with its ability to currently offer one-stop shopping, afford Frontier a competitively advantageous position in competing for customers in Ameritech's Michigan territory.

*g) Local Exchange Network Element Competitors*

Our discussion of TCG, Brooks, and MFS described their affiliations with the large interexchange carriers in the provisioning of wholesale transport and access. The carrier-to-carriers role is very important in the development of competition. First, it shows that there

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<sup>85/</sup> "Frontier Communications Leads the Pack as an Integrated Service Provider By Now Offering Bundled Services to Include Local and Long Distance Services On a Single Invoice in Washington and Oregon," *PR Newswire*, Aug. 6, 1996; Art Bridgeforth Jr., "Telecommunications Bundle Up: Phone Firms Package Many Services, But It May Not Be That Simple," *Crain's Detroit Business*, Oct. 21, 1996.

<sup>86/</sup> "Frontier Communications Leads the Pack as an Integrated Service Provider by Now Offering Bundled Services to Include Local and Long Distance Services on a Single Invoice in Washington and Oregon," *PR Newswire*, Aug. 6, 1996.

is in fact an alternative to the incumbent local exchange company. Second, it permits the industry to better utilize its physical assets. TCG, Brooks, and MFS leverage the large sales forces, existing subscriber base, and established brand names of the interexchange carriers, while those carriers obtain access to alternative network infrastructure without the cost and managerial trouble of building it themselves.

WinStar is an example of a firm that specializes in wholesale transport and loops. WinStar provides wireless T-1 service.<sup>87/</sup> Wireless technologies can assist other CLECs in providing digital transmission of both data and voice. Wireless technology also can reduce the costs of entering a market in a concentrated downtown area or out in a sparsely populated suburb.<sup>88/</sup> For example, wireless loops can cost 40% less than comparable wireline loops in some situations, and a wireless loop systems can be set up in weeks, rather than the months or even years required for wired systems.<sup>89/</sup>

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<sup>87/</sup> WinStar also has a long-distance reseller subsidiary and is licensed in Michigan as a full-service local exchange company.

<sup>88/</sup> Dan O'Shea, "38 GHz bypass option wins over CAPs," *Telephony*, July 31, 1995, p. 7. Electric Lightwave will use the technology to expand its existing networks in California and other states. Motorola and AT&T also have wireless local loop products. See Joe Gifford, "Wireless Local Loop Applications in the Global Environment," *Telecommunications*, July 1995, p. 35; "TeleDensity Promises to be a Wireless Wonder for Telcos," *Telco Business Report*, October 10, 1994; "AT&T Network Systems Introduces Digital Wireless 'Local Loop' System," *PR Newswire*, October 4, 1995.

<sup>89/</sup> "AT&T Network Systems Introduces Digital Wireless 'Local Loop' System," *PR Newswire*, October 4, 1995. Joe Gifford, "Wireless Local Loop Applications in the Global Environment," *Telecommunications*, July 1995, p. 35.

As for wireline loops, as mentioned earlier, Brooks Fiber has agreements to provide loops and transport to AT&T in 22 cities and MCI in 17 cities,<sup>90/</sup> and AT&T also has signed agreements with TCG for loops and transport.

*h) Private networks*

Telecommunications history is replete with self-suppliers who eventually played major roles in the development of competition. Sprint started off in 1973 as the microwave communications subsidiary of Southern Pacific Railroad, SP Communications.<sup>91/</sup> WilTel, the former telecommunications subsidiary of the Williams Companies, was built to help the Williams Companies track and control usage of their extensive pipeline network. Later, WilTel began selling long distance telecommunications transport on the wholesale and retail level. Many acquisitions and changes later, WilTel evolved into MFS/Worldcom.<sup>92/</sup> While most self-suppliers do not transform themselves into substantial providers of telecommunications services to others, even the smallest of self-suppliers has an important disciplining effect on the market by influencing the make-versus-buy decision.

A recent survey by Computer Intelligence estimates that 11.2 percent of business sites with over 1000 employees are connected to private telecommunications networks.<sup>93/</sup> These

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<sup>90/</sup> Deutsche Morgan Grenfell/CJ Lawrence Investment Report, June 25, 1996.

<sup>91/</sup> "Antitrust Suit," *The Washington Post*, March 28, 1978, D9.

<sup>92/</sup> See *PR Newswire*, September 24, 1985 and *Business Dateline; Tulsa World*, May 3, 1989.

<sup>93/</sup> Survey of private networks by site size (employee numbers) done for Ameritech by Computer Intelligence, September 30, 1996.

networks compete with Ameritech Michigan in two principal ways. First, self-suppliers bypass the public switched network for local exchange, access and interexchange calls. Second, many large self-suppliers have spare capacity in their private telecommunications infrastructure and can sell this capacity to third parties.

One way to bypass the local switched network is to use Private Branch Exchange (PBX) equipment. PBXs essentially are small central office switches that enable companies to self-supply local exchange service. PBXs can operate as stand-alone switching hubs or as remote switching nodes on private networks consisting of many switches and lines. In addition, PBXs also reduce the need for access lines because calls of multiple users are aggregated over one line.<sup>94/</sup> PBXs controlled by software can be programmed to route intraLATA calls to a competitor's network on a 1+ basis. Finally, because PBXs can handle "intercom" calls (local calls to other stations within the company) and offer many enhanced services, they enable businesses to provide their own intra-exchange services that they would otherwise purchase from a LEC.

A quite different, but important form of competition from private networks is satellite-based transactions processing systems using Very Small Aperture Terminal (VSAT) technology. VSAT networks compete directly with Ameritech and other exchange service providers by substituting the use of satellite links for local loops. These networks can

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<sup>94/</sup> For example, a business customer with 1000 access lines could, by buying or leasing a PBX, reduce the number of access lines to 150, an 85% reduction. Hence, the PBX would eliminate the need for 850 access lines. Likewise, the PBX could be used to provide many enhanced services that the customer would otherwise have purchased from the LEC.

economically service both very low density locations in rural areas and urban sites equally well. Among the hundreds of private VSAT networks are Unocal Corporation which uses VSAT networks to connect retail gasoline stations for debit and credit card authorizations, while Toyota Motor Sales USA uses VSAT for communications among offices and dealers around the country.<sup>95/</sup> Depending on technological developments, VSAT systems may begin offering voice-grade services as well, allowing complete bypass of the local exchange carrier. If so, companies using VSAT would effectively be competing with Ameritech and other LECs by offering "basic exchange service" to their retail affiliates.

## 2. *Imminent Local Exchange Service Competition*

Taken together, our macro and micro market analysis provides clear evidence that competitors are entering Ameritech's local exchange service territory at a rapid clip, which, in turn, demonstrates that the local exchange business in Ameritech's Michigan service area is open to competition. We conclude that barriers — institutional or economic — have been eliminated or lowered so as to encourage competitive entry, and that competitors have in fact entered using a variety of market strategies and provisioning methods. Thus, competition now exists in local exchange services in Michigan. Our next step is to investigate potential competition and assess how it exerts competitive pressure on the local exchange market segment.

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<sup>95/</sup> "Local Oil Companies Gaze Skyward to Boost Corporate Communications," *Los Angeles Business Journal*, August 15, 1994.

When considering potential competition, it is worth remembering that perceptions about competitive entry into telecommunications services are strongly colored by the past. A startup named "Carterphone" was among the first to challenge AT&T's monopoly in customer premises equipment. MCI was a small newcomer when it challenged AT&T's monopoly in long distances services. Startups like MFS were the first to challenge the monopoly franchise in local access services. Traditionally, then, competitive entry in telecommunications has been led by small challengers.

The situation in local exchange services in 1997 is completely different. The potential entrants are not lilliputians. First, many telecommunications companies have an existing customer base and the hardware and human resources (e.g., sales and marketing) necessary to enter the local exchange market segment. For example, the company most advantageously positioned to enter the local exchange business is AT&T. AT&T already has the greatest number of customers in the U.S. (residential and business) using its long distance service, and is capable of integrating backward into the local exchange business by offering a local/long distance bundle. It is very important to realize that companies such as AT&T or Sprint are simply making product-line extensions, and not building new businesses from the ground up as was the case with City Signal/Brooks. Put differently, AT&T and Sprint are formidable potential entrants right now because the local exchange business is a natural extension of their existing businesses.

Second, rapid technological change is changing the economics of telecommunications and generally favors new entrants. This rapid change reduces the value of incumbency.

Third, the concentration of revenues in the local exchange market, together with the interconnection, unbundling and resale requirements placed on the incumbent provider, means that entrants can be very successful — on a resale or facilities basis — without having to target or serve every conceivable local service area. For these reasons, the local exchange business is far more susceptible to competitive inroads at this stage in its evolution than was the long distance business when it first was opened.

We will now describe some of the companies that have signalled their competitive intentions by applying for local exchange service certification in Michigan. Specifically, we will describe (a) AT&T, (b) Sprint, (c) Out-of-Region Local Exchange Companies, (d) Wireless Carriers, (e) Cable TV, and (f) Electric Utilities.

a) *AT&T*

No firm has more impressive telecommunications facilities, customers, or name recognition than AT&T. Its market entry announcements alone are often enough to force firms currently active in the market to react.<sup>26/</sup> In a November 18, 1996 interview appearing in *Crain's Detroit Business*, Bill Ketchum, president of AT&T's central states organization, said that AT&T will offer local phone service in Michigan by February 1997. AT&T also is expected to offer wireless, cellular, messaging, paging, internet access, and

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<sup>26/</sup> On February 8, the day that the Telecommunications Act of 1996 was signed into law, AT&T's chairman, Robert Allen, said: "[The] local services market is being opened up. . . Are we enthused about that? Frankly, we can almost taste it! . . . We're ready to play. We're ready to win. And we don't intend to lose any time doing it. By the end of this month we will have taken the first steps to provide local services in all 50 states." Remarks delivered at a news conference in Washington D.C. by Robert E. Allen, Chairman and CEO of AT&T, on February 8, 1996.

DirecTV by the third quarter of 1997. In that same article, Ketchum said that AT&T is investing \$50 million this year and \$75 million in 1997 to build its wireless network in Southeast Michigan.<sup>97/</sup> AT&T's recent spinoff of its computer operations (NCR) and its telecom equipment manufacturing business (Lucent) has greatly strengthened the company for entering local exchange services and competing globally as the world's largest integrated telecommunications service provider. AT&T clearly has enormous financial and technical resources to make major inroads when it begins offering local exchange services in 1997.

AT&T's apparent strategy shares several features with the strategy that we believe MCI has exhibited: careful selection of target markets, the use of the company's brand name as a strategic asset,<sup>98/</sup> and the deployment of capital more toward marketing and customer care and less to the building of self-supplied network infrastructure. The targeting of selected customers was described by current CEO Robert Allen: "It's logical that bees follow honey and banks are robbed because that's where the money is. And our focus will be on concentrated markets in major cities with concentrations of business customers."<sup>99/</sup> With the ability to select its target markets, AT&T will be able to marshal its domestic marketing forces and powerful brand name in support of its central-states organization.

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<sup>97/</sup> AT&T holds one of the PCS licenses in Detroit. "AT&T to Offer Local Service in February," *Crain's Detroit Business*, November 18, 1996, p. 39.

<sup>98/</sup> AT&T has been the top advertised brand in the U.S. for the last two years, with the company spending nearly \$700 million in advertising in 1995 — almost 20% more than the ad spending for the second highest brand name and more than double MCI's ad spending. R. Craig Endicott, "Top 200 Brands," *Advertising Age*, May 6, 1996, p. 36.

<sup>99/</sup> Roy Neel, "Static on the Line," *Chicago Tribune*, December 11, 1996.

Indeed, AT&T aims to achieve double-digit market share throughout the mid-west region by the end of 1997.<sup>100/</sup>

AT&T's provisioning strategy appears to be to use others' plant and equipment (e.g., transport and loops) wherever possible.<sup>101/</sup> This means that the company is likely to enter broadly on a resale basis (especially for residential service) and then migrate over time to a mix of unbundling and self-provisioning as the economics dictate. According to press reports, new AT&T president John R. Walter is pushing for a leased-element solution for local exchange provisioning.<sup>102/</sup> This confirms the viability of leasing unbundled network elements as an entry strategy.

AT&T has recently moved to bolster its already strong brand name and establish yet closer ties with its customers by ending its billing arrangement with Ameritech and sending long distance bills directly to Ameritech/AT&T customers in Michigan.<sup>103/</sup> This move establishes a direct link between AT&T and its customers and provides a channel for the targeted marketing of additional or enhanced service offerings.

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<sup>100/</sup> Joseph B. Cahill, "Comings and Goings: Marketing AT&T's Midwest Push," *Crain's Chicago Business*, June 24, 1996, p. 30.

<sup>101/</sup> "AT&T Plots Invasion of Baby Bell Turf," *Network World*, July 8, 1996, p. 1.

<sup>102/</sup> "[Walter] is shifting AT&T's strategy away from spending billions to build a nationwide patchwork of local phone networks, moving instead toward striking friendly deals with the archrival Baby Bells." See J.J. Keller, "AT&T's New President Is Wasting No Time in Shaking Things Up," *The Wall Street Journal*, Dec. 24, 1996.

<sup>103/</sup> "AT&T To Send Long Distance Bills Directly to Ameritech Customers," *Common Carrier Week*, Jan. 15, 1996.

In addition to using its brand name to try to expand from its existing customer base in long distance to local services, AT&T also has announced intentions to provide a wide variety of information and entertainment services. AT&T's regional vice president has stated that, "We plan on providing everything you can imagine from a phone company."<sup>104/</sup> The company has introduced free internet access to long distance customers and, through its recent investment in DirecTV, is offering packages including long distance, wireless and television.<sup>105/</sup> Its "True Reach" program offers variable volume discounts on integrated usage of the company's basic long distance and local toll calls, cellular long distance, operator-handled, AT&T Calling Card, directory assistance, conference calls, and the company's True Connections 500 service.<sup>106/</sup> AT&T is also using its "Maximum Advantage" program (a quarterly analysis of a customer's services and discounts, which in April included a statement preselling local service by AT&T) to presell local service.<sup>107/</sup>

Our conclusion is that, like MCI, AT&T sees its brand name and marketing capabilities as important underpinnings of its competitive advantage, and appears to be

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<sup>104/</sup> "Midwest is Key Hurdle in Race of Baby Bells," *Chicago Tribune*, May 6, 1996.

<sup>105/</sup> "The Internet Pulsates With All the Pros and Cons of AT&T's Free-Access Offer," *The Wall Street Journal*, February 29, 1996, p. B1; "AT&T Keen to Wrestle with Bells," *Reuters*, January 26, 1996.

<sup>106/</sup> "AT&T's New Calling Plan 08/21/95," *Newsbytes News Network*, August 21, 1995.

<sup>107/</sup> AT&T Maximum Advantage, quarterly analysis, mailed to Ameritech Telecommuting, April 1996: "Plus, coming soon to your area: local service from AT&T."

allocating resources to further bolster these capabilities rather than focus primarily on constructing local exchange infrastructure.

*b) Sprint*

Sprint is the third largest domestic interexchange carrier and, through its former United Telephone subsidiary, has been an integrated service provider in Michigan for a long time. Sprint has extensive experience and know-how in providing local telephone operations: its local operations already serve 6.8 million residential and business customers in 19 states. Sprint is also negotiating with TCI to provide local exchange service over TCI's cable network.<sup>108/</sup> With annual revenues of \$12.8 billion,<sup>109/</sup> and given its PCS authorizations and alliances with cable television systems owners (TCI, Comcast Corporation, and Cox Communications) and CAPs (Teleport Communications), Sprint is very well-positioned to compete in the era of full-service telecommunications.

Sprint has demonstrated its commitment to serving consumers and small businesses by broadening its channels of distribution to target those customers through its recently signed alliance with Radio Shack. Sprint, in combination with Sprint Spectrum, its nationwide wireless partnership, plans to institute a joint marketing project to sell its local, long distance, wireless, paging, and internet access services in 300 Radio Shack stores by year-end, and expects those services eventually to be available for purchase in 6,800 stores and participating dealerships throughout the country. Sprint also recently teamed up with

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<sup>108/</sup> "Sprint-TCI Telephony Deal Could be Imminent," *The Cable-Telco Report*, May 6, 1996, p. 9.

<sup>109/</sup> Sprint 1995 Annual Report p. 3.

Blockbuster Video. The video rental chain, through its 3,200 stores which reach 80% of the US population,<sup>110/</sup> will distribute free software for Sprint's internet Passport service. The software will be on CD-ROM and the two companies expected to distribute 1.5 million copies of it in November and December alone.<sup>111/</sup> For its small business customers, Sprint recently initiated the "Fridays Free" campaign, which has resulted in record sales for this customer category.<sup>112/</sup>

Wayne Peterson, President of Sprint's National Integrated Services Division, recently touted that "Sprint is positioned ideally to be a national provider of seamless, integrated telecommunications services to businesses and consumers . . . . Strategically, Sprint has the assets, infrastructure and expertise to expand its local presence through its existing local and national networks, the resale of service of an incumbent provider and through the nationwide wireless network of Sprint Spectrum."<sup>113/</sup>

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<sup>110/</sup> "Sprint Opens A New Branded Gateway to Entertainment on the Internet," *PR Newswire*, Nov. 7, 1996.

<sup>111/</sup> Todd Wasserman, "Blockbuster Hooks Up With Sprint Online and In-Store," *Computer Retail Week*, Nov. 18, 1996, p. 33.

<sup>112/</sup> "Sprint Continues Its Move Toward Packaged Communications Services On A National Scale," Oct. 1, 1996. Press Release downloaded from Sprint's home page, [www.sprint.com](http://www.sprint.com) on Oct. 30, 1996.

<sup>113/</sup> "Sprint Continues Its Move Toward Packaged Communications Services On A National Scale," Oct. 1, 1996. Press Release downloaded from Sprint's home page, [www.sprint.com](http://www.sprint.com) on Oct. 30, 1996.

c) *Out-of-region entry by other local exchange carriers*

Competition also is imminent from those RBOCs that have established a brand name. Two of the RBOCs, Bell Atlantic and NYNEX, have already received certification to provide out-of-region long distance service in Michigan. While neither has yet announced the inclusion of local service in their product offerings, local service is a logical product extension to the long distance packages, given the current one-stop shopping trend in the telecommunications industry.<sup>114/</sup>

Bell Atlantic has been offering long distance and international services to business customers in Michigan since July 30, 1996, and plans to extend its offering to residential customers as well. Bell Atlantic has established its presence in the state by opening two offices, one in Southfield and one in Grand Rapids. Its strategy to enter the market in Michigan was spawned by procompetitive regulatory policies, allowing Bell Atlantic to receive certification within one day.<sup>115/</sup>

GTE is another local phone company initiating long distance service in Michigan. Unlike the RBOCs, GTE is unencumbered with regulatory restrictions on providing long distance service in its own territory and is doing just that. Less than a month after the signing of the Telecommunications Act, GTE introduced long distance service to its local customers in three states: Michigan, Illinois, and Minnesota. GTE indicated that Michigan

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<sup>114/</sup> Bell Atlantic has opened two Michigan offices. The company also has run numerous TV ads (whose story boards are included in Appendix A).

<sup>115/</sup> Arthur Bridgeforth, Jr., "Bell Atlantic Plans 2 Michigan Offices," *Crains Detroit Business*, Aug. 5, 1996, p. 3.

was one of the first states chosen because of its "simple certification requirements and quick approval process."<sup>116/</sup> GTE intends to offer its long distance services in all of the 28 states where it currently provides local service.<sup>117/</sup> While not currently in direct competition with Ameritech, GTE's ability to offer integrated service enables it to secure its customers and thereby ensure its viability in an increasingly competitive market.

d) *Wireless Carriers*

Mobile wireless services have traditionally played a complementary role to local wireline services, but wireless is now increasingly disciplining incumbent local exchange carriers. Wireless provides a foundation for the logical next step of entry into the local exchange market segment for incumbent wireless providers with an established brand name and customer base. The MTA-EMCI survey found that one-quarter of current cellular customers would purchase their local phone service from their cellular provider.<sup>118/</sup> Wireless providers also are increasingly beginning to compete directly with the LECs for second access lines, especially in the form of fixed/mobile wireless service. Fixed/mobile wireless service provides consumers with fixed access to local telephony service in conjunction with the high mobility of wireless. Mobile services increasingly compete with LECs and IXC's in providing short-distance toll usage because, with the increasing size of

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<sup>116/</sup> "GTE Launches InterLATA Drive in Midwest; Expansion Planned," *Telco Business Report*, April 8, 1996.

<sup>117/</sup> *Id.*; See also, "GTE is the First of the Large Local-Exchange Carriers to Offer Long-Distance Service," GTE Press Release, March 4, 1996.

<sup>118/</sup> "Branding and Bundling Telecommunications Services: Telephony, Video and Internet Access," *MTA-EMCI Telecommunications Consultants*, August 1996, p. 12.

their "local calling areas," mobile usage is becoming price competitive with wireline.

Finally, mobile service providers offer a growing array of enhanced services such as internet access and voice mail that compete directly with the services provided by wireline carriers.

Stationary wireless links can be used to greatly extend the geographic coverage, hence, the number of customers that can be reached by wireline-based networks. Wireless links also offer these carriers a low cost and faster way of providing T-1 and higher capacity service than is available using copper or fiber facilities. Firms such as WinStar and BizTel already offer these high capacity links to competitive local exchange carriers.

Developments are occurring in the wireless local loop as well. Several firms are beginning to offer equipment for wireless local loop and wireless local access as a substitute for twisted pair.<sup>119/</sup> The equipment uses frequencies not used by current PCS license holders and is being developed as a low-cost alternative to more traditional mobile cellular/PCS service. For fixed location use, testing is occurring on small, low power cells that economize on switching costs and which therefore will offer economical wireless loops to the small user. Thus, the combination of the microwave services offered by WinStar and BizTel and the newer wireless local access technologies now being introduced will soon create an economic wireless alternative to the traditional copper twisted pair.

MCI recognizes the potential for fixed/wireless services and has stated that it plans to use its resale agreement with Nextwave to provide fixed wireless local loop services as an

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<sup>119/</sup> "Nokia's Wireless Local Loop Network Serves Different Operation and End-User Needs," see >> <http://www.nokia.com> <<

alternative to traditional local telephone service.<sup>120/</sup> MTA-EMCI Telecommunications Consultants found that 73 percent of the respondents interested in fixed/mobile wireless services would use such service as an additional household access line, in direct competition with the LEC.<sup>121/</sup> Furthermore, a study by Texas-based consultancy Technology Futures, Inc. estimated that by 2010 the wireless access market would be 81 percent the size of the U.S. wireline market.<sup>122/</sup>

e) *Cable companies*

Continental Cablevision Michigan (a subsidiary of the Boston-based cable company now owned by US West), has obtained a license from the MPSC to provide local phone service in metro Detroit, as well as in Washtenaw, Jackson, Livingston, Ingham, and Eaton counties. Continental said that it intends to provide residential and business service to customers in 44 Michigan communities, with the potential to serve more than 465,000 homes.<sup>123/</sup> The company currently is upgrading its cable TV network with fiber-optic cables in place of coaxial cables. A spokesman for Continental in Michigan said that "Continental eventually will invest several million dollars to have its own infrastructure in

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<sup>120/</sup> Lawrence M. Fisher, "MCI Joins Nextwave in Wireless Communications Venture," *The New York Times*, August 27, 1996, p. C4.

<sup>121/</sup> "Branding and Bundling Telecommunications Services: Telephony, Video and Internet Access," *MTA-EMCI Telecommunications Consultants*, August 1996, p. 81.

<sup>122/</sup> Gary Kim, "How PCS Will Broadside the Local Loop—Why Telcos Ought to Worry," *America's Network*, June 15, 1996, pp. 50-51.

<sup>123/</sup> "Continental Cablevision Granted License to Provide Local Telephone Service," press release, Sept. 12, 1996.

place to support its local phone-service operation.”<sup>124/</sup> The company recently opened its network operations center, which will permit it to “keep tabs on the technical performance of the company’s anticipated telephone service as it is introduced in the months and years ahead.”<sup>125/</sup>

Like all cable companies entering telephony, Continental Cablevision has the early advantage of a far reaching network and a broad customer base in the Detroit metro area, as well as physical infrastructure to support higher-speed internet services. Moreover, Continental’s acquisition by US West will provide it with additional financial resources and valuable expertise in telephone services provisioning that will help it gain a strong foothold in the local phone market in Michigan.<sup>126/</sup>

Also, People’s Choice TV in the Detroit area currently offers telephone services (through US Telesys, LP, a reseller) along with cable through agreements with MDU owners.

*f) Electric Utilities*

Institutional changes, such as the elimination of certain provisions of the Public Utility Holding Company Act (PUHCA), have made it easier for large utilities to enter the

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<sup>124/</sup> “Continental Goes Local: Cable Firm Wants To Provide Phone Service to Subscribers,” *Crain’s Detroit Business*, May 13, 1996, p. 3.

<sup>125/</sup> “Continental Cablevision, Inc. Opens State-of-the-Art Network Operations Center,” press release, Dec. 12, 1996.

<sup>126/</sup> Id.

telecommunication business.<sup>127/</sup> FCC Commissioner Susan Ness has commented that the changes in PUHCA would “unchain the regulatory shackles” on public utilities.<sup>128/</sup>

The main strategic advantages of electric utilities are their rights-of-way, billing expertise, customer databases, and substantial financial resources. Many utilities also have thousands of miles of fiber-optic networks and switches in place, which they use for their own internal communications. According to the Edison Electric Institute, 98 percent of this electric utility fiber capacity is “untapped.”<sup>129/</sup> Most likely, electric utilities will offer unbundled transport and access (loops) to other full-service exchange companies.

In addition to traditional electric utilities, non-utility generating companies also are moving into telecommunications. The main advantage that these firms have is experience in financing and managing infrastructure projects. Case in point: MFS was founded by Peter Kiewit Sons', Inc., a large general construction firm whose strategic advantages, like those

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<sup>127/</sup> “Two More Utilities Authorized to provide Telecom Service,” *Washington Telecom Newswire*, April 15, 1996.

<sup>128/</sup> “FCC Streamlines Entry of Public Utilities Into Telecom,” *Washington Telecom Newswire*, September 12, 1996.

<sup>129/</sup> Many of these companies are now leasing conduit and excess fiber capacity to CAPs and IXC's — one report states that 25 percent of utilities' route miles are leased by telecommunications companies. See “Check Out These Potentially Lucrative Utility Fiber Plans,” *Fiber Optics News*, April 4, 1994; “By Any Means Necessary: Utility Cos. Go After Telecom Market,” *Local Competition Report*, Vol. 5, No. 5, p. 3; “FCC To Consider Rules to Allow Electric Utilities Into Telecom,” *Washington Telecom Newswire*, September 11, 1996.