

such as an affiliate providing in-region services, and order that the BOCs treat such services like nonregulated activities for accounting purposes.

Based upon the conclusion reached by the Commission, as long as the transactions between the AOCs and their Section 272 affiliate have been and will continue to be afforded nonregulated treatment for accounting purposes, Ameritech has met the burden of establishing its compliance with Section 272. The AOCs have treated ACI as a nonregulated affiliate for accounting purposes since its inception.

11. AT&T's proposed requirements have no basis in the Act or the Commission's rules and only serve as a distraction. For example, the Commission has never required (and there is no public interest served) in the public disclosure of mapping between accounts of affiliates, or for the provision of financial reports of nonregulated affiliates engaged in affiliate transactions as recommended by AT&T's Goodrich and McClelland at paragraphs 10 and 11. Providing commercially sensitive and confidential information of this type would only inure to AT&T's competitive advantage while having nothing to do with ensuring compliance with the Commission's accounting safeguards.

12. In paragraphs 37 through 40 of their Affidavit, AT&T's Goodrich and McClelland cite what they perceive as so-called deficiencies associated with the Ameritech Michigan Marketing and Sales Agreement with ACI along with the study being developed by Ernst & Young LLP for quantifying ACI's utilization of the AOCs service representatives (SRs) as a marketing and sales channel. Specifically, they allege the study being performed by Ernst & Young LLP ("E&Y") is deficient because it does not detail all costs (i.e., direct and indirect) associated with the services studied for quantification. Their assessment fails on two important points:

1. The study is to quantify the services performed by the AOCs for ACI as opposed to determining the value of services. The valuation of the services performed is separate and distinct from the quantification of the services; and
2. Part 32.27, Transactions with Affiliates, is the valuation hierarchy required to be followed for determining how to record transactions between regulated and nonregulated affiliates.

Notwithstanding AT&T's failed assessment, data pertaining to the E&Y study will be evaluated every month, and the sample size(s) updated as necessary, to meet statistical parameters. To the extent that these activities (indirect costs) are in support of the calls themselves, they will be driven based on the relative portion of ACI products to other (non-ACI) products. Any indirect expenses specifically identified as purely related to ACI will be directly assigned to ACI.<sup>11</sup>

13. As specified in the agreement posted on Ameritech's Internet website, the valuation standard that will be applied by Ameritech Michigan for recording the marketing and sales transactions with ACI will follow the Commission's valuation hierarchy as adopted in the Accounting Safeguards Report and Order. Since the Section 271 application has not yet been approved, Ameritech Michigan is not currently performing marketing and sales services for ACI. However, once Section 271 approval is obtained and Ameritech Michigan begins offering marketing and sales services to ACI, the rates associated with all services covered by this agreement will be disclosed within the required time frame required by the Accounting Safeguards Report and Order. In my previously filed affidavit at paragraph 16, FDC was noted as being higher than FMV for the services performed by the AOC SRs. The

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<sup>11</sup> This approach is consistent with Section 64.901, Allocation of Costs, of the Commission's rules.

FMV was determined based upon an analysis of quotes and vendor billings incurred for similar marketing services.

14. In Section VII of their Affidavit, AT&T's Goodrich and McClelland maintain that past alleged compliance difficulties show that additional scrutiny of Section 272 compliance is warranted. Nothing new is offered here. In addressing the very same alleged compliance difficulties asserted by Goodrich and McClelland, the Commission has already concluded that its

...experience to date, however, has not disclosed a systematic pattern of anticompetitive abuses by independent LECs or the BOCs that would indicate that our safeguards are ineffective. (See Notice of Proposed Rulemaking, CC Docket No. 96-149, released July 18, 1996 at paragraph 146).

In any event, with the revised valuation standards of Section 32.27 and the biennial audit of Section 53.209, the Commission has already increased the scrutiny of Section 272 compliance.

15. In paragraph 10 of his Affidavit, TCG's Dr. Teske states that Section 272(b)(4)

"...provides that no separate affiliate may obtain credit under any arrangement that would permit a creditor recourse to the assets of the RBOC (emphasis added)...ACI produced evidence to the contrary, representing that its parent Ameritech would be providing the full financial backing to ACI..."

Therefore, TCG asserts that Ameritech is not in compliance with Section 272(b)(4). TCG and Dr. Teske's assertions fail and are without merit for the following primary reasons:

- Section 272(b)(4) specifically applies to the "Bell operating company," not the "RBOC," as claimed by TCG's Dr. Teske.<sup>12</sup>

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<sup>12</sup> The term "Bell operating company" is defined in Section 3(4) of the Communications Act of 1934, as amended by the Telecommunications Act of 1996.

- TCG and Dr. Teske both incorrectly use Ameritech Michigan (a “Bell operating company”) and Ameritech (the parent corporation) interchangeably.
- Both TCG and Dr. Teske acknowledge that the debt transaction is a transaction between ACI and its parent corporation, Ameritech, not Ameritech Michigan. Neither the parent corporation, Ameritech, nor ACI is a “Bell operating company.”<sup>13</sup>

16. In paragraph 11 of his Affidavit, Dr. Teske implies that Ameritech Michigan is required by Section 272(b)(5) to “...conduct all transactions with the RBOC with which it is affiliated on an arm’s length basis, with all such transactions being reduced to writing and available for public inspection” (emphasis added). TCG highlights the debt transaction between Ameritech Corporation and ACI as an example of Ameritech Michigan’s alleged noncompliance with Section 272(b)(5). TCG’s and Dr. Teske’s allegations are without merit. First, and foremost, Section 272(b)(5) pertains to transactions between a Section 272 affiliate and a “Bell operating company.” The transaction cited by TCG and Dr. Teske is between ACI, a Section 272 affiliate, and Ameritech Corporation, not Ameritech Michigan (i.e., a “Bell operating company”).<sup>14</sup> Second, and as noted above, TCG and Dr. Teske misinterpret Section 272(b)(5) as pertaining to transactions between the Bell operating company and the RBOC. Section 272(b)(5) clearly states that the Section 272 affiliate

...shall conduct all transactions with the Bell operating company of which it is an affiliate on an arm’s length basis with any such transactions reduced to writing and available for public inspection.

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<sup>13</sup> See footnote 12. Also, see Affidavit of Patrick J. Earley at paragraph 29 regarding ACI’s financing arrangement.

<sup>14</sup> See footnote 12. Also, see Affidavit of Patrick J. Earley at paragraph 29 regarding ACI’s financing arrangement.

Once again, TCG and Dr. Teske incorrectly interchange Ameritech Michigan and Ameritech as to the applicability of provisions of the Act and the Commission's rules.

17. TCG, at Section VI. C. of its comments, claims Ameritech violated Section 272(b)(5) by "...failing to disclose the transfer of network facilities to ACI..." TCG specifically cites the Illinois Bell Telephone Company Petition for Clarification of Investment Obligation under the Alternative Regulation Plan, Docket No. 94-0469, Illinois Commerce Commission ("ICC"), September 20, 1996 ("Illinois Petition for Clarification") as evidential support of its unfounded accusation. In the Illinois Petition for Clarification, Ameritech Illinois contended that infrastructure investments made by its long distance and CATV affiliates should be considered part of the original infrastructure commitment. In its reply comments to the Illinois Petition for Clarification, Ameritech Illinois clarified that

...in 1992, when the commitment was made, Ameritech Illinois assumed that it would make future investments in broadband and long distance facilities and could count them towards the \$3 billion commitment. However, subsequent events, not the least of which is the Telecommunications Act of 1996, altered these assumptions. The federal Act requires, for example, that interLATA services be provided through a separate subsidiary. Thus, long distance investments that Ameritech Illinois originally contemplated making, and counting towards the \$3 billion commitment, are now being made, instead, by ACI. What "shifted" was the business responsibility to make these investments -- not the infrastructure itself.<sup>15</sup>

Since Section 272 requires providing in-region interLATA services only through a separate subsidiary, it was quite obvious that each of the AOCs would not build facilities to accommodate the provisioning of in-region interLATA services.

## CONCLUSION

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<sup>15</sup> Exhibit A (attached hereto), paragraph 9, Reply of Ameritech Illinois, January 29, 1997, regarding the Illinois Petition for Clarification.

18. As noted throughout these comments, both AT&T and TCG have either misrepresented the facts related to Ameritech's and the AOCs' implementation of the Section 272 accounting safeguards or have proposed requirements that have neither a basis in the Act nor in the Commission's rules. It is for these reasons that comments pertaining to compliance with the Commission's accounting rules filed by these parties are without merit and should be rejected.

19. This concludes my Affidavit.

I hereby swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge and belief.

Richard E. Shutter  
Richard E. Shutter

Subscribed and sworn before me this 3rd. of July, 1997.

Audrey L. Hankel  
Notary Public

My Commission expires: 7/3/99





**Ameritech**

**EXHIBIT A**

**Louise A. Sunderland**  
Counsel - Regulatory

January 29, 1997

Via Overnight Mail

Ms. Donna M. Caton  
Chief Clerk  
Illinois Commerce Commission  
527 East Capitol Avenue  
P.O. Box 19280  
Springfield, IL 62794-9280

Re: Docket No. 96-0469

Dear Ms. Caton:

Enclosed please find an original and four copies of the Reply of Ameritech Illinois in the above-referenced docket.

Please file stamp and return a copy to the undersigned in the enclosed postage-paid envelope.

Yours truly,



Louise A. Sunderland

LAS: pdc  
encl.  
cc: service list





substantive grounds. After reviewing those pleadings, Ameritech Illinois decided to withdraw its petition. As part of its Notice of Withdrawal, the Company committed that it would not contend in any future proceeding in which Ameritech Illinois' compliance with its \$3 billion commitment is at issue that such investment should be considered.<sup>1</sup> Notice of Withdrawal, p. 1.

2. None of the responding parties oppose Ameritech Illinois' decision to withdraw its Petition. However, notwithstanding this support, AG/CUB, CTC, and Cook County (hereafter "Intervenors") request issuance of a Commission order addressing the merits of Ameritech Illinois' petition. Variously, they seek an order which would "strictly prohibit[] Ameritech from...counting Ameritech investment in any unregulated or competitive subsidiaries toward the \$3 billion commitment" (AG/CUB Response, p. 1); "clarify that the \$3 billion commitment applies to Illinois Bell and not to its long distance and cable affiliates or any other affiliate engaging in a competitive, non-regulated business" (CTC Response, p. 3); and/or state that "the Company does not have discretion to spend any portion of its \$3 billion on other unregulated businesses for purposes of determining compliance under the Alternative Regulation Plan" (Cook County Response, p. 3).

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<sup>1</sup> For example, a review of the operation of the Alternative Regulation Plan is scheduled to begin in March of 1998 under the terms of the Commission's order in Dockets 92-0448/93-0239.

3. The Intervenors are seeking relief that is not available to them and which is unnecessary in any event. First, it is standard Commission practice that parties initiating a proceeding by petition have the right to withdraw their request. As Staff recognized in its Response, the Commission would have to initiate another proceeding on its own motion to address the issues raised by the Intervenors on their merits. (Staff Response, p. 3). Since Ameritech Illinois may withdraw its Petition, Intervenor "consent" to Ameritech Illinois' decision is not required and conditions cannot properly be attached to that consent.

4. Second, the Commission may not issue an order addressing the issues raised by the Intervenors if the Petition is withdrawn. Without the Petition, there is no proceeding; if there is no proceeding, there is no record on which the Commission could base the order which the Intervenors seek. Furthermore, if Staff's legal argument that Ameritech Illinois could not obtain a "declaratory ruling" based on the Petition which it filed is correct, then no other party can obtain such a ruling either.

5. In any event, the relief requested by the Intervenors is unnecessary. Ameritech Illinois' commitment in its Notice of Withdrawal addresses the concerns they raise in their Responses. In that Notice, Ameritech Illinois clearly committed not to seek inclusion of long distance or CATV investments made by its affiliates in any

future proceeding addressing its compliance with the \$3 billion commitment. The fact that Ameritech Illinois disagrees with this end result from a policy perspective -- and said so in its Notice -- is irrelevant. (CTC Response, p. 2; Cook County Response, p. 3). By virtue of this commitment, Ameritech Illinois has agreed to take this issue off the table for purposes of future administration of the Alternative Regulation Plan.<sup>2</sup>

6. No order from the Commission is necessary to ensure Ameritech Illinois' compliance with this commitment. The infrastructure reports which Ameritech Illinois files each year pursuant to the Alternative Regulation Plan clearly set forth annual investments by legal entity. Ameritech Illinois will continue to follow this format. Nothing additional is required to permit the Commission and the parties to monitor Ameritech Illinois' network expenditures separate and apart from its affiliates'.

7. By specifically addressing long distance and CATV investments made by its affiliates in its Notice of Withdrawal, Ameritech Illinois did not intend to imply that it would seek to count investments made by other affiliates in unregulated, competitive businesses (e.g. wireless) (AG/CUB Response, p. 2; CTC Response, p. 3). The focus of

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<sup>2</sup> CTC contends that Ameritech Illinois should also be precluded from counting CATV and long distance infrastructure investment even if made by Ameritech Illinois at some point in the future. (CTC Response, p. 3). This is not the factual situation today; should circumstances change, the issue should be addressed at that time based on a proper record.

Ameritech Illinois' Petition was long distance and CATV infrastructure investments made by ACI and New Media Enterprises; that was the focus of the pleadings filed by the Intervenor in response to the Petition; and that is why the Notice addressed them specifically. Even though it did not specifically mention them in the Notice, Ameritech Illinois will not seek to count cellular investments or investments by other affiliated entities in unregulated, competitive businesses either.<sup>3</sup>

8. It is clear from the pleadings filed by the Intervenor that they are misconstruing the Petition that Ameritech Illinois' filed. AG/CUB, CTC, and Cook County all contend that the following statement in the Petition is an admission that Ameritech Illinois has made investments in long distance or broadband infrastructure which it has subsequently transferred to its long distance or CATV affiliate:

"Infrastructure which Ameritech Illinois had originally assumed would be part of its network has been shifted to separate subsidiaries..." (AG/CUB Response, pp. 2-3; CTC Response, p. 3; Cook County Response, pp. 3-4).

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<sup>3</sup> The factual circumstances involving Ameritech Services, Inc., ("ASI"), however, are clearly different. In contrast to its long distance and CATV affiliates, ASI is not involved in competitive unregulated ventures. ASI is the service subsidiary of Ameritech Illinois and supports Ameritech Illinois' regulated activities. Ameritech Illinois' relationship with ASI and the value of the services provided by ASI to Ameritech Illinois have been thoroughly examined in numerous Commission proceedings. Accordingly, Ameritech Illinois is aware of no legal or policy reason why ASI investment that supports network operations -- and which Ameritech Illinois would make if ASI did not -- should be excluded from the \$3 billion commitment. However, this is an issue for another day. Ameritech Illinois will continue to display ASI-related data in its infrastructure reports on a separate basis in the event that this becomes a contested issue at some point in the future.

9. The Intervenors are misinterpreting this statement. Consistent with the preceding paragraph of the Petition, all that Ameritech Illinois was saying was that in 1992, when the commitment was made, Ameritech Illinois assumed that it would make future investments in broadband and long distance facilities and would count them towards the \$3 billion commitment. However, subsequent events, not the least of which is the Telecommunications Act of 1996, altered these assumptions. The federal Act requires, for example, that interLATA services be provided through a separate subsidiary. Thus, long distance investments that Ameritech Illinois originally contemplated making, and counting towards the \$3 billion commitment, are now being made, instead, by ACI. What "shifted" was the business responsibility to make these investments -- not the infrastructure itself. Ameritech Illinois never made any infrastructure investments in either CATV or long distance service and certainly has not transferred any such investments to its affiliates. In any event, Ameritech Illinois is well aware of its obligations under Section 7-102 of the Public Utilities Act. Ameritech Illinois has not and will not transfer infrastructure investment to any of its affiliates without obtaining any required Commission approvals.<sup>4</sup>

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<sup>4</sup> For example, the transfer of data processing assets from Ameritech Illinois to ASI in 1990 was duly approved by the Commission in Docket 88-0083. Order in Docket 88-0083 (reopened), adopted September 19, 1990.

10. Staff notes that the Commission has the authority to reopen Dockets 92-0448/93-0239 on its own motion and recommends a limited area of inquiry if the Commission were to exercise that authority. (Staff Response, p. 3). Since Ameritech Illinois is no longer seeking to include the "Ameritech family of companies" in its infrastructure commitment, Ameritech Illinois sees no purpose to any such proceeding.

11. In conclusion, with the withdrawal of Ameritech Illinois' Petition, the captioned proceeding should be terminated without further action by the Commission.

Respectfully submitted,

Illinois Bell Telephone Company



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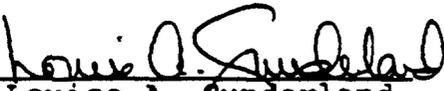
One of Its Attorneys

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Illinois Bell Telephone Company  
225 West Randolph Street, 27-B  
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January 29, 1997

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the Reply of Ameritech Illinois was served upon the Service List via Overnight Mail this 29th day of January, 1997.

  
Louise A. Sunderland

**SERVICE LIST**

**ICC DOCKET NO. 96-0469**

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JUL - 7 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of )

Application of Ameritech )  
Michigan Pursuant to Section )  
271 of the Telecommunications )  
Act of 1996 to Provide In- )  
Region, InterLATA Services in )  
Michigan )

CC Docket No. 97-137

Reply Affidavit of Suzanne J. Springsteen  
on Behalf of Ameritech Michigan



4. The purpose of this affidavit is to respond to an accusation made by Brooks Fiber Communications of Michigan (“Brooks”) and by Teleport Communications Group Inc. (“TCG”) in their June 10 submissions in this proceeding that Ameritech Michigan has failed to pay reciprocal compensation owed to Brooks and TCG.

5. Brooks’s claim that Ameritech “has not actually paid reciprocal compensation to Brooks Fiber” (Opposition of Brooks Fiber Communications of Michigan to Ameritech’s Application, p. 34) and TCG’s claim that “Ameritech is not paying TCG for the termination of calls” (Comments of Teleport Communications Group Inc., p. 17) are both false. The truth is as follows:

6. When a competing local exchange carrier bills Ameritech for reciprocal compensation, Ameritech pays the bill. There is an exception -- an exception that applies, so far as I know, throughout the world of commerce. If the bill is wrong, Ameritech does not pay to the extent of any overstatement in the amount due. As a result, there are instances where the amount owed is in dispute; once the dispute is resolved, payment is promptly made in accordance with the resolution of the dispute.

7. Both Brooks and TCG have sent Ameritech bills that included obvious errors. For example, Brooks has billed Ameritech for traffic that Ameritech did not originate, and has billed Ameritech at incorrect rates. TCG has also billed Ameritech for traffic that Ameritech did not originate, and has improperly included tandem switching and termination charges in its intraLATA toll rate when it did not perform that function. When Ameritech has detected such errors in Brooks’s and TCG’s bills, it has disputed the bills.

8. This does not mean, however, that Ameritech has not been paying reciprocal compensation to Brooks and TCG. On the contrary, Ameritech Michigan has made more than 4 million dollars in reciprocal compensation payments to Brooks, while disputing less than 10% of that amount. Similarly, Ameritech Michigan has made approximately 2.0 million dollars in reciprocal compensation payments to TCG, while disputing less than 10% of that amount.

9. Ameritech Michigan does not have disputes about reciprocal compensation bills with every competing local exchange carrier. MFS has billed Ameritech Michigan \$1,005,288.57 for reciprocal compensation, and Ameritech has paid MFS the full \$1,005,288.57.

10. I believe it is irresponsible of Brooks and TCG to say that Ameritech is not paying reciprocal compensation when Ameritech has paid Brooks and TCG millions of dollars in reciprocal compensation and has legitimately disputed portions of each company's bills that amount to less than 10% of the whole based upon clear errors by those companies themselves.

11. This concludes my affidavit.

I swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge and belief.

Suzanne J. Springsteen  
Suzanne J. Springsteen

Subscribed and sworn before me this 2nd  
day of July, 1997.

Richard A. Blonde  
Notary Public

My Commission expires: April 23, 2000

RICHARD A. BLONDE  
NOTARY PUBLIC - OAKLAND COUNTY, MI  
MY COMMISSION EXPIRES 04/23/00

