may permit the merged firm to raise its price with less substitutability constraint than it faced before the merger. See 1992 Horizontal Merger Guidelines § 2.21. Assuming that mass market local or bundled services are differentiated products to which this analysis would apply, the question is whether consumers of those services in the Chicago LATA would consider SBC the next best choice after Ameritech, and whether consumers in the St. Louis LATA would consider Ameritech the next best choice after SBC.

In BA/NYNEX, the Commission found a likelihood of such unilateral effects. That conclusion was based on several critical findings for which there is no supporting evidence here. First, the record showed that Bell Atlantic planned a substantial entry into the New York LATA. Here, SBC had no such plans in Chicago, and we have discussed the limited nature of Ameritech's plans in St. Louis. Second, the Commission found that Bell Atlantic would be an important second choice for mass market consumers in the New York LATA. See ¶¶ 105-06. Here, there is no evidence that either SBC or Ameritech would be an important second choice for the other's local exchange customers.

Rather, the major, national interexchange carriers (including their CLEC affiliates) are the most significant "second choice" competitors. AT&T has expertise in the operation of telecommunications networks, incomparable brand name recognition, substantial infrastructure (augmented by its pending acquisitions of TCG and TCI), and huge customer bases in both SBC's and Ameritech's markets. Schmalensee/Taylor Aff. ¶¶ 49-52. WorldCom/MCI/MFS/Brooks/UUNet also has expertise in operating local telecommunications networks for sophisticated customers, as well as substantial infrastructure, customer base and name recognition in the two companies' regions. Id.

¶¶ 53-54. Sprint has extensive local exchange expertise (through United and Centel) and also many customers and broad name recognition. Id. ¶ 55. Each of these competitors is a far more effective constraint on SBC and Ameritech than either of the merging parties would be on the other. Id. ¶¶ 48-56.

In other words, there is no reason to believe that the merger will remove a significant current constraint on the competitive behavior of either of the merging parties, and it is clear that sufficient future competition – from the major IXCs as well as the myriad of CLECs, niche firms and others that have been very successful at winning profitable business away from both Ameritech and SBC – will continue. Applying the unilateral effects analysis to this merger in these markets leads to the same result as application of the traditional potential competition test – there are and will continue to be enough sources of competition in these markets that the merger will not adversely affect competition or the public interest.

b. Coordinated Effects

There is no reason to believe that the merger will increase the likelihood of coordinated interaction in any of the relevant markets. Indeed, the National-Local Strategy itself plainly refutes any argument that the merger could facilitate coordinated behavior among large LECs. Furthermore, in a market with a large incumbent, all of the other market participants have a powerful incentive to compete and expand output. In other words, whether Ameritech competes in St. Louis or not, AT&T (especially in light of its pending mergers with TCI and TCG), WorldCom/MCI/MFS/Brooks/UUNet, Sprint, the many CLECs and all of the other competitors will continue to try to expand their business and compete vigorously with SBC in order to build their customer bases. Nor is there any reason to believe that such emerging competitors would be likely to

collude among themselves or that such coordination would have any impact on the market.

c. Dynamic Effects

The Commission also considers the merger's effect on dynamic market performance and, in particular, whether alternative entry into a local market by an incumbent LEC would affect the process of opening local markets to competition. See BA/NYNEX ¶¶ 125-27. Here, as discussed below, those effects are unambiguously positive. See Carlton Aff. ¶¶ 10-11, 42, 46; Gilbert/Harris Aff. ¶¶ 61-63.

The accompanying Affidavits of Stephen M. Carter of SBC and Terry D. Appenzeller of Ameritech detail the extensive efforts that both companies have made to open their respective local markets to competition. See also Table 1 at the "Tables" attachment. SBC has spent more than $1 billion to date to comply with Section 251 of the Communications Act and the competitive checklist under Section 271, and expects to spend more than $1.5 billion by the end of 1998. Carter Aff. ¶ 10. Ameritech has spent approximately $2 billion to date to do the same. Appenzeller Aff. ¶ 10. Over 3,300 SBC employees and over 1,200 Ameritech employees have worked to fulfill Section 251 and 271 requirements, such as customer service, operations support systems ("OSS"), number portability, trunking, local service centers and computer systems. Carter Aff. ¶ 7; Appenzeller Aff. ¶¶ 8, 9.

CLECs are operating successfully in SBC's and Ameritech's regions, as a result of these efforts. See Tables 1, 3, 4, 7, 8, 11, 12, and 13 at the "Tables" attachment. SBC was the first ILEC to negotiate an interconnection agreement under the 1996 Act. Carter Aff. ¶ 5. To date SBC has negotiated 374 interconnection agreements, 93 percent of

which have been signed without arbitration. Id. Ameritech has 175 approved interconnection agreements with 39 carriers. Appenzeller Aff. ¶¶ 15, 30.

Pursuant to these interconnection agreements, SBC has provided more than 350,000 interconnection trunks to CLEC customers and exchanged more than 14 billion minutes of local and Internet traffic with CLEC networks. See Attachment 1 to Carter Aff. CLECs have attached their lines to hundreds of thousands of SBC poles and occupy 8.2 million feet of SBC conduit space. Id. They have received more than 60,000 unbundled local loops and nearly 350 unbundled switch ports from SBC. Id. CLECs are able to access these facilities and interconnect with SBC's local networks using 490 operational physical collocations and 58 virtual collocation agreements. Id.

Similarly, Ameritech has leased approximately 94,600 unbundled local loops to CLECs. Appenzeller Aff. ¶ 48. As of May 1, 1998, competing carriers were physically collocated in 113 and virtually collocated in 166 Ameritech wire centers, with 77 more wire centers scheduled for activation in the third quarter of 1998. Id. ¶ 41. This represents 23 percent of Ameritech's wire centers, but those centers serve 63 percent of the business lines and 50 percent of the residential lines in Ameritech's territory, showing how CLECs have focused on the most important end offices. Pampush Aff. ¶ 14; Appenzeller Aff. ¶ 41. Ameritech also has made available nondiscriminatory access to poles, ducts, conduits and rights-of-way. Id. ¶ 26. Competing carriers are offering service in more than 80 percent of the communities that Ameritech serves, including virtually every community that Ameritech serves in Illinois and Michigan. Id. ¶ 12.

As the process of implementing the 1996 Act continues to unfold, ongoing progress has been made by both companies, and we expect this progress to continue.

Thus, any barriers to local exchange entry that may have existed in the past have been and are continuing to fall.

The merger will not impede progress in implementing the 1996 Act. That process is ongoing and irreversible. Indeed, the overall effect of the merger is to advance that process by enabling SBC's and Ameritech's entry into numerous local markets via the National-Local Strategy and the inevitable responses of others who will enter SBC's and Ameritech's markets.

d. Potential Entry and Expansion

A merger cannot substantially lessen competition in a market if new entry can easily occur in that market.[99] In this regard, expansion by small firms can have the same procompetitive effect as new entry.

In BA/NYNEX, the Commission concluded that there remained barriers to new entry and expansion in the New York LATA. As time goes on and the process of market-opening advances, those types of barriers are disappearing, as is demonstrated by the substantial and effective entry that has occurred into local and bundled services in Chicago and St. Louis. Schmalensee/Taylor Aff. ¶ 43. More such entry is on the way. Pampush Aff. ¶ 7; see also Section IV.C.1, below. If the merger had any potential for raising price, the entry trend would only accelerate.

In fact, this merger will be a tremendous stimulus to new entry in the relevant markets – not because it will reduce competition, but because it will bring new competition to dozens of markets outside the SBC and Ameritech regions. This, in turn,

---

[99] See, e.g., United States v. Baker Hughes, Inc., 908 F.2d 981, 987 (D.C. Cir. 1990); Oahu Gas Serv. v. Pacific Resources, Inc., 838 F.2d 360, 366 (9th Cir. 1988); United States v. Waste Mgmt., Inc., 743 F.2d 976, 981-83 (2d Cir. 1984); 1992 Horizontal Merger Guidelines § 3.0.

will stimulate others to respond both in their own markets and by competing in the markets in which SBC/Ameritech will be the incumbent LEC. Schmalensee/Taylor Aff. ¶ 16; Carlton Aff. ¶ 10; Gilbert/Harris Aff. ¶ 28. The merger thus carries forward the market-opening policies of the 1996 Act by encouraging new entrants in a great many local markets.

Conditions are already conducive to entry in each of the relevant markets. See Schmalensee/Taylor Aff. ¶¶ 37-41; Section IV, below. For example, in local exchange service, entry barriers for resellers are very low. A CLEC may resell retail services either under an approved resale agreement or pursuant to an intrastate resale tariff. Since no substantial network investments are necessary, resellers can and do materialize almost overnight. Moreover, resellers can offer market-wide ("universal") service almost immediately, with little risk. They can challenge LECs as one-stop suppliers and establish primary-provider relationships with minimal investment. Any reseller can readily increase its "capacity" without effective limit. In sum, there is as much potential resale competition as there is ILEC capacity, and there are as many potential competitors as there are potential retailers of any mass-market good or service.

Entrants seeking to deploy capital most profitably use the unbundling alternative for many of their nonstrategic plant needs, but not for switching.[100] SBC and Ameritech themselves plan to rely heavily on unbundled elements in implementing the National-Local Strategy. While many carriers have already bought loops from SBC and Ameritech, only a very few entrants have ordered unbundled switching from SBC and

[100] The avoidance of access charges creates an additional incentive for interexchange carriers to deploy their own switching facilities for local exchange service. See 47 C.F.R.§ 51.509(b) (establishing collection costs and usage – sensitive charges for shared transmission and tandem switching).

none have done so from Ameritech, even though both companies stand ready and able to furnish it at any time.

Although by definition not as low as those for pure resale competition, entry barriers for facilities-based competition on an unbundled basis are quite modest. Schmalensee/Taylor Aff. ¶ 40. New entrants can install and operate powerful switching systems with relatively modest investment, as compared to the much higher cost of deploying an entire network. Tables 7, 8, 11, 12, and 13 (at the "Tables" attachment) depict the extensive facilities-based entry that has already occurred in SBC's and Ameritech's regions. In addition, numerous carriers have excess switching capacity that can readily be used to provide the same local switching services performed in SBC and Ameritech end offices.[101] Interexchange carriers are also adding end-office (Class 5) switches to their networks in the 13 states served by SBC, SNET and Ameritech. Moreover, because trunking costs are low and declining, switches do not have to be located in close proximity to a customer, or to a LEC central office. A relatively small number of switches can thus provide unbundled competitive service to a large geographic area.[102]

C. The Merger Will Not Impair Regulatory Effectiveness

For several reasons, this merger will not impede regulatory effectiveness, through the use of benchmark comparisons or otherwise. First, even at five – Bell Atlantic,

---

[101] See, e.g., J. Dix and D. Rohde, AT&T Plots Invasion of Baby Bell Turf, Network World, July 8, 1996, at 1 (noting AT&T's effort to use its Digital Link services embedded base of Class 4 switches to provide local service to the company's dedicated access customers).

[102] See Intelcom Group, MFS Gain Strong Buy Recommendation From Investment House, Fiber Optics News, Feb. 26, 1996, available at 1996 WL 2327659 (stating that fiber-based CLECs can serve a 125-mile radius area with a single switch).

BellSouth, GTE, SBC/Ameritech and U S West – the number of large LECs among which to compare and contrast local service performance would remain adequate for the Commission's regulatory needs. As discussed in Section II.E, above, the original number of RBOCs created at divestiture had no regulatory significance. Moreover, as the Commission noted in SBC/Telesis, "nothing in the Communications Act or the antitrust laws requires the present number of RBOCs, or any particular number of them." SBC/Telesis ¶ 32.

In addition to the development of more sophisticated regulatory tools, the increasingly competitive telecommunications environment makes the number of large LEC benchmarks less important. Competition alone will drive the provision of services to the most beneficial mix of quality and price. The Commission itself recognized that in a competitive environment, the use of benchmarks becomes "moot."[103] Indeed, to the extent that benchmark information, such as tariffed rates, service requirements or cost data, is publicly available, it may even inhibit competition.[104] Overall, a reduction by one in the number of large LECs available for benchmark comparisons will not impede regulatory effectiveness.

---

[103] See In re International Settlement Rates, Report and Order, 12 FCC Rcd. 19806, ¶ 14 (1997).

[104] See In re Policy and Rules Concerning the Interstate, Interexchange Marketplace; Implementation of Section 254(g) of the Communications Act of 1934, Second Report and Order, 11 FCC Rcd. 20,730, at ¶ 37 (1996) (observing that "requiring nondominant interexchange carriers to file tariffs for interstate, domestic, interexchange services may harm consumers by impeding the development of vigorous competition, which could lead to higher rates").

IV. THE MERGER IS IN THE PUBLIC INTEREST

In order to approve the transfer to SBC of ultimate control of Ameritech's FCC authorizations, the Commission must find that those transfers are consistent with the public interest, convenience and necessity. As interpreted by the Commission, that determination includes consideration of whether the applicants are qualified to control the licenses being transferred and whether the transaction is consistent with the policies of the Communications Act. BA/NYNEX ¶¶ 29-32; SBC/Telesis ¶¶ 12-13.

A. SBC Is Qualified To Control the Licenses

There is no doubt that SBC is eminently qualified to control these authorizations. SBC's qualifications to operate these authorizations are, of course, well known to the Commission. SBC is the ultimate parent of companies holding numerous FCC authorizations, including the same types of authorizations at issue here.[105]

SBC's qualifications to control these authorizations cannot reasonably be questioned. Indeed, as recently as last year, in connection with its approval of the SBC/Telesis merger, the Commission reviewed "the citizenship, character, and financial and technical qualifications" of SBC. The Commission noted that SBC "is a Commission licensee and communications carrier of longstanding," and it found, as it should find here, that SBC "possesses those qualifications."[106] Similarly, Ameritech is unquestionably qualified as the transferor of the authorizations at issue.

---

[105] A list of the categories of FCC authorizations held by subsidiaries or affiliates of SBC is contained in the FCC Form 430 filed herewith.

[106] SBC/Telesis ¶ 11. While some of the parties that filed comments in that proceeding sought to cast SBC in an unfavorable light, the Commission noted that "[n]o party claims that SBC lacks any of the qualifications just mentioned," id., nor could any party to this proceeding plausibly do so in connection with the merger of SBC and Ameritech.

SBC is the parent of SWBT, Pacific Bell and Nevada Bell, which collectively serve over 33 million access lines within SBC's seven in-region states. As the owner of several of the country's largest telephone companies, SBC is well qualified to exercise ultimate control over the authorizations used in Ameritech's local exchange business.

There can also be no issue regarding SBC's qualifications to control the CMRS and other authorizations held by Ameritech's subsidiaries. Through its CMRS subsidiaries – Southwestern Bell Mobile Systems ("SBMS"), Southwestern Bell Wireless ("SWBW") and Pacific Bell Mobile Services ("PBMS") – SBC is the second largest cellular provider in the U.S., with operations in both the five states in which SWBT operates as well as in a number of out-of-region markets. SBMS and SWBW provide high quality, competitive service to their customers and, as a result, have an average market penetration rate that is significantly above the national average. In addition, PBMS is a rapidly expanding PCS provider in California and Nevada, and SBC has committed substantial financial and other resources to ensure that PBMS is meeting the FCC's objectives for PCS to become a new and effective competitor to the existing cellular systems in those states.

SBC's financial qualifications to control and operate Ameritech's authorizations are also beyond challenge. As demonstrated by the audited financial statement of SBC for the year ending December 31, 1997 (a copy of which is attached hereto), SBC has sufficient resources to ensure that Ameritech's operations will continue to serve the public interest, convenience and necessity. Further, since the transaction will be structured as a stock-for-stock merger, no new capital will be required to complete it. Thus, SBC's qualifications should simply not be an issue in these proceedings.

B. Analytical Framework

As discussed above, the Commission has interpreted the public interest standard applicable to proposed license transfers to require an overall balancing of the benefits of a transfer with potential harms to competition. See BA/NYNEX ¶ 2. Beneficial effects in a number of markets, or promotion of the overall policies of the Communications Act, can overcome potential harms to competition in a specific market. Id. ¶14.

In assessing the potential for competitive harm, the analysis begins by defining the relevant product and geographic markets. Next, the Commission identifies the participants in those markets, especially the most significant market participants. The Commission then evaluates the effects of the merger on competition in the relevant market, including potential unilateral or coordinated effects. The Commission also considers the merger's effect on the Commission's ability to constrain market power as competition develops. These potential anti-competitive effects must be balanced against merger-specific efficiencies such as cost reductions, productivity enhancements, or improved incentives for innovation. In addition, the Commission considers whether the merger will support the general policies of market-opening and barrier-lowering that underlie the 1996 Act. Id. ¶37.

Here, as shown in Section III, above, there is no potential for competitive harm. But even if the Commission were to find such a potential in a given market, such as the loss of limited potential competition in St. Louis, the Commission would have to weigh that against the overwhelming procompetitive and other benefits the merger will provide in a great many markets, both within SBC's and Ameritech's regions as well as in telecommunications markets throughout the country and around the globe. As the

Affidavit of Professor Carlton shows, the balance in this case clearly favors the merger. Carlton Aff. ¶ 41.[107]

C. Competition Is Flourishing and the Merger Will Promote Additional Competition in Many Telecommunications Markets

As discussed in Section II, above, this merger offers the prospect of tremendous procompetitive effects in local markets throughout the country, as well as in global telecommunications markets. It will also benefit the public interest by creating a new, major U.S. participant in the global telecommunications marketplace. In addition, the substantial cost savings and other synergies that will be achieved as a result of this merger, described in Section II.D, will provide benefits in all the markets served by SBC and Ameritech, now and in the future. These enormous procompetitive and other public interest benefits produced directly by this merger are themselves sufficient for the Commission to find the merger in the public interest even if it found – contrary to fact – that there could be a conjectural loss of potential competition in selective geographic areas. See BA/NYNEX ¶¶ 178, 192.

In this section, we describe the various markets in which SBC and Ameritech participate and identify the actual competition in those markets and the effects of the merger on competition.

1. Local Exchange and Exchange Access

The merger will promote competition in local markets throughout the current SBC and Ameritech regions and beyond. As we have shown, the National-Local Strategy and the other plans of the new SBC will inject tremendous new competition into

[107] See also H. Hovenkamp, Federal Antitrust Policy § 13.4a (1994) (given the elusive nature of potential competition, it must be disregarded when weighed against improvements in actual competition that are likely to flow from a merger).

local markets, in addition to the competition that has already been produced by regulatory, technological and market developments. Gilbert/Harris Aff. ¶ 28.

Section 251 of the Telecommunications Act of 1996 requires SBC and Ameritech to offer their services at "wholesale" rates, to allow competitors to interconnect at any technically feasible point and to offer piece parts (like local loops) for lease on an unbundled basis. As a result, CLECs can enter the market using a variety of strategies. A CLEC may resell retail services either under an approved resale agreement or pursuant to an intrastate resale tariff.

Alternatively, a CLEC can install facilities, such as switches or fiber networks, and combine those facilities with network elements obtained from the incumbent on an unbundled basis. SBC's and Ameritech's implementation of these requirements has considerably lowered entry barriers, and numerous local competitors have entered markets throughout the two regions. See Schmalensee/Taylor Aff. ¶¶ 38-41, 43; Pampush Aff. ¶ 13; Table 1 at the "Tables" attachment.

Over 39 competitors provide service using a resale strategy in Ameritech's region, and 25 do so in SBC's states. See Appenzeller Aff. ¶ 15; Table 3 at the "Tables" attachment. In St. Louis, there are presently some 9 different CLECs reselling SBC local lines. See Table 5 at the "Tables" attachment. In Chicago, some 22 companies are reselling Ameritech local service – including AT&T, MCI, LCI and Cable & Wireless. See Table 6 at the "Tables" attachment.

In addition, competitors that connect their own switches to unbundled SBC or Ameritech loops face little difficulty in serving any profitable group of potential customers. Pampush Aff. ¶ 14. Competitors have already installed 547 switches in

SBC's region, and 120 in Ameritech's.[108] These competitors include interexchange carriers and their affiliates like AT&T/TCG/TCI and MCI/WorldCom/MFS/ Brooks/UUNet; cable companies like Time Warner and Cox; and a host of smaller carriers like Connect Communications (of Little Rock, Arkansas) in SBC's region, and Buckeye Telesystem (a subsidiary of Buckeye Cablesystems in Toledo) in Ameritech's. See Schmalensee/Taylor Aff. ¶¶ 48-62; Tables 7 and 8 at the "Tables" attachment. In the St. Louis LATA, at least 7 local competitors are operating 17 switches, and at least 13 local competitors are operating 37 switches in the Chicago LATA. See Schmalensee/Taylor Aff. ¶ 43; Pampush Aff. ¶ 9; Tables 9 and 10 at the "Tables" attachment. In addition, interexchange carriers that already have switches in the relevant geographic markets could readily use those switches in the provision of local service.

There are also extensive competitive transport facilities throughout the SBC and Ameritech regions and in the relevant geographic markets at issue in this transaction. Competitors' fiber networks currently total over 6,500 route-miles in SBC's region, and over 5,000 miles in Ameritech's.[109] Competitive landline transport is already available in every one of SBC's and Ameritech's states. See Tables 11 and 12 at the "Tables" attachment; Maps 3-29 at the "Maps" attachment; Pampush Aff., Attachment A.

---

[108] See Pampush Aff. ¶ 13; Search of Local Exchange Routing Guide, Bellcore Traffic Routing Administration, Science Applications Int'l Corp. (July 1, 1998) ("LERG"). The LERG is based on information that is provided to Bellcore by incumbent and competitive local carriers. LERG switch counts do not always agree with counts from other sources, including public statements by the carriers themselves. Some of these discrepancies are due to the blurring of definitional lines between switching entities and rate centers. The bright line that once distinguished central office switches from other switching equipment has been fading as a new generation of remote switches and remote digital terminals (RDTs) have emerged with limited switching capabilities.

[109] Pampush Aff. ¶ 14. This is a conservative estimate based on the information available. It includes existing plant, planned networks and networks under construction.

In St. Louis, for example, MCI/WorldCom/MFS/Brooks/UUNet has operated a network since 1995.[110] AT&T/TCG's network, which is even more extensive than WorldCom's, serves the entire St. Louis metro area.[111] Similar, though smaller, networks are operated by Digital Teleport[112] and Intermedia.[113] Together competitors have deployed some 484 route miles of fiber in that LATA.[114] See Map 15 at the "Maps" attachment. This is, of course, in addition to the extensive cable television network operated by TCI, which AT&T plans to use to provide competitive local telephone

---

[110] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: MFS-WorldCom at 11 (9th ed. 1998).

[111] See Map 15 at the "Maps" attachment.

[112] Digital Teleport's St. Louis network has been in operation since 1995. It consists of 200 route miles (17,700 fiber miles), with 27 buildings on-net, is collocated in 4 central offices, and is served by a Nortel DMS-500 Switch engineered to handle local and long distance traffic. Digital Teleport also operates networks in Fulton and Mexico, Missouri – both within the St. Louis LATA. The Fulton network consists of 5 route miles (360 fiber miles), with 7 buildings on-net. The Mexico network consists of 5 route miles (360 fiber miles). See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Digital Teleport at 3 (9th ed. 1998).

[113] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Intermedia at 8-9 (9th ed. 1998).

[114] See New Paradigm Resources Group and Connecticut Research, 1997 CLEC Report: Annual Report on Local Telecommunications Competition (8th ed. 1997); New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, (9th ed. 1998); Teleport Communications Group, TCG Facts (visited July 14, 1998) <http://www.tcg.com/tcg/ about TCG/TCGfacts.html>.

service.[115] In Chicago, MCI/WorldCom/MFS/Brooks/UUNet,[116] AT&T/TCG[117] and NEXTLINK[118] operate their own networks.[119] CLECs with networks planned or under construction in Chicago include Allegiance Telecom[120] and Metromedia Fiber Network.[121] Together, these networks account for some 648 route miles of fiber in that

---

[115] See, e.g., AT&T Press Release, AT&T, TCI to Merge (Jun. 24, 1998), available at <http://www.att.com/press/980624.cha.html> (AT&T CEO Michael Armstrong said: "Today we are beginning to answer a big part of the question about how we will provide local service to U.S. consumers").

[116] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: MFS-WorldCom at 11 (9th ed. 1998).

[117] TCG operates a 412 route-mile network (16,750 fiber miles) with 76 buildings on-net. Opened in 1990, the network extends through Oak Brook, Rolling Meadows, Waukegan, Skokie, and Gary, Indiana. See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: TCG at 10, 24 (9th ed. 1998).

[118] NEXTLINK launched its 40 route-mile Chicago network in February 1998. See NEXTLINK Press Release, NEXTLINK Communications Reports Strong Sales and Revenue Growth, Apr. 30, 1998; see also New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: NEXTLINK at 13 (9th ed. 1998).

[119] See Illinois Commerce Commission, Annual Report on Telecommunications 1997 (visted July 19, 1998) <http://icc.state.il.us/icc/Doclib/AR/013198_TEL.polf>.

[120] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Allegiance at 3 (9th ed. 1998).

[121] Metromedia's planned network, which it expects to complete in the fall of this year, will include 50 route-miles of fiber (21,600 fiber miles). See id. at Carrier Profile: Metromedia at 8.

LATA.[122] See Map 25 at the "Maps" attachment. Chicago is another major cable market for TCI,[123] and is likely to be a major local exchange market for AT&T/TCG.[124]

As described in Section II.A, above, the merged SBC/Ameritech will become a significant new competitor in 30 of the largest local exchange markets throughout the country. Out-of-region, the merger's impact will be unambiguously pro-competitive: the merger will introduce a major new competitor into many of the largest local exchange markets in the country. And as described in more detail in Section V.C.5, below, the new SBC's strategy will spur local exchange competition and the development of new and improved services nationwide, in the new SBC's own region as much as elsewhere, as other major competitors like the other ILECs, AT&T/TCG/TCI, WorldCom/MCI/MFS/ Brooks/UUNet, and Sprint respond in kind. See Schmalensee/Taylor Aff. ¶¶ 7, 16; Carlton Aff. ¶ 10.

Within SBC's or Ameritech's regions, the merger will not in any way alter or diminish the ability of others to compete in local exchange markets. Neither competitors,

---

[122] See New Paradigm Resources Group and Connecticut Research, 1997 CLEC Report: Annual Report on Local Telecommunications Competition 449-450 (8th ed. 1997); New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: Metromedia at 24 (9th ed. 1998); TCG, TCG Facts (visited July 14, 1998), <http://www.tcg.com/tcg/about TCG/TCGfacts.html>.

[123] Following TCI's purchase of MediaOne's cable network in Chicago, TCI's Bill Fitzgerald declared that "The Chicago area is a strategically important market" for his company and that the acquisition had "further positioned [TCI] as a leading telecommunications provider in this region." Joseph Cahill, TCI Sets Its Sights on Chicago: Eyes MediaOne Deal, Crain News Service, Aug. 18, 1997, at 4.

[124] See, e.g., J. Cahill, AT&T Takes on Familiar Turf: Local Monopoly: It Eyes Up to 5 percent of Ameritech's Chicago Market, Crain's Chicago Business, Jan. 27, 1997; AT&T Leases Fiber Route From Jones Intercable for Chicago Suburbs Service, M2 Presswire, Aug. 27, 1996; AT&T Target Chicago as First Fiber Buildout, Fiber Optic News, Aug. 5, 1996.

state commissions nor this Commission will allow any backsliding in the market-opening process. SBC and Ameritech already face in-region competitors that are large, experienced, robust and ambitious. The main CLECs already have established customer bases within SBC's and Ameritech's regions. Nearly every local phone customer is already signed up with one or another of the long distance companies. Some 60 percent of those residential customers likewise have an established business relationship with a cable company. Millions more have established business relationships with wireless carriers unaffiliated with SBC or Ameritech.

The main CLECs also have powerful brand names that cut across all consumer segments. AT&T/TCG/TCI and MCI/WorldCom/MFS/Brooks/UUNet have assembled entities with strong reputations in the business and consumer ends of the market. Schmalensee/Taylor Aff. ¶¶ 48-54. Other CLECs are aggressively marketing their services through a variety of means. The major IXC-CLECs have far more extensive national marketing organizations than either SBC or Ameritech.[125] Though they tend to have smaller advertising budgets, smaller CLECs focus intensely on fewer markets, aggressively targeting select customers in select areas.

SBC and Ameritech will not enjoy any supply-side differentiation from other entrants. Numerous carriers – AT&T/TCG/TCI, MCI/WorldCom/MFS/Brooks/UUNet, Sprint, and others – have extensive experience either directly in local telephony or in large-scale operation support systems; in any event, experience, know-how and systems themselves are available from independent suppliers. The wide availability of resale will

---

[125] See, e.g., M. Roberts, Montgomery Securities, Bell Atlantic/NYNEX Merger: Another "Time To Go" Signal, Communications Services, Apr. 23, 1996 (noting that analysts agree that weak marketing skills are a key "strategic disadvantage" for RBOCs competing against interexchange carriers.).

make it easy to assemble copycat packages of any differentiated bundle that succeeds in the market. Technological differences in products offered through unbundled switching are likely to involve software or hardware features that are readily available from third-party vendors – hence, again, subject to easy imitation. Other competitors also have equal, if not greater, abilities to bundle a wide variety of services together. AT&T/TCG/TCI, for example, will have a unique ability to bundle facilities-based local, long distance, wireless, Internet and cable services together. The merger will position the new SBC to compete more effectively in this changing environment.

Finally, the merger will enhance the ability of the new SBC to provide competitive, innovative, new services and more effectively to market existing services to customers. In-region local customers will enjoy the benefits of the numerous synergies and efficiencies that the merger will effect, including each company's particular network, market research and product development expertise and cost savings derived from increased scale.

2. Wireless Services

In each of their cellular markets, SBC and Ameritech compete not only with the other cellular carriers but also with at least two PCS licensees and also one or more SMR providers, including Nextel, the nation's largest provider of such services.[126] This is consistent with the pattern of wireless competition created by the Commission's licensing policies. There are 117 different companies holding cellular and PCS licenses in areas where SBC controls wireless properties and 83 different wireless license holders in areas where Ameritech controls wireless properties. In both regions, the largest license holders

[126] In their PCS markets, of course, SBC and Ameritech face two cellular competitors in addition to other wireless carriers.

are affiliated with interexchange carriers.[127] After the merger, the new company will still compete against AT&T in 107 service areas, against Sprint in 119 areas and against other companies like GTE, BellSouth, AirTouch, Omnipoint, PCS Primeco, Alltel/360°, U.S. Cellular, and many others. See Maps 30-37 at the "Maps" attachment.

Numerous other competitors have built nationwide wireless networks using spectrum bands other than those dedicated to cellular and PCS. WinStar's "Wireless Fiber" provides local, long distance, and Internet access services using the 38 GHz band.[128] WinStar's Chicago network has been operational since April 1997,[129] and the company expects to begin operating in St. Louis within a year.[130] Teligent plans to use low cost, microwave digital wireless technology to reach small- to medium-sized businesses in Chicago.[131] Nextel has built a nationwide wireless network using SMR spectrum; the company is operational in 6 states in SBC's region, and all 5 states in Ameritech's region. It is present in both Chicago and St. Louis. See Map 37 at the "Maps" attachment.

---

[127] AT&T holds 3 MTA and 65 BTA licenses in SBC's region and 5 MTA and 30 BTA licenses in Ameritech's, covering over 80 percent of the population in SBC's region, and nearly 100 percent in Ameritech's. Sprint's licenses cover the entire country. See Map 20 at the "Maps" attachment.

[128] See WinStar, The Business (visited July 20, 1998) <http://www.winstar.com/ indexThe Buiss.htm>.

[129] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: WinStar at 8 (9th ed. 1998).

[130] See New Paradigm Resources Group and Connecticut Research, 1998 CLEC Report: Annual Report on Local Telecommunications Competition, Carrier Profile: WinStar at 9 (9th ed. 1998).

[131] See Conversation: Teligent Inc.'s Alex Mandl, Wash. Post, Feb. 2, 1998, at F10 (stating that Teligent is currently installing a DMS-500 in Chicago). See generally

Joining SBC's and Ameritech's CMRS properties will improve the licensees' ability to offer the type of service that the Commission has endorsed and sought to promote – seamless, broad coverage. The Commission has recognized that the development of larger calling scopes is pro-competitive and provides consumer benefits.[132] In addition to a wider calling scope, the combined company will better be able to offer consumers consistency of advanced features that depend on the existence of an integrated, regional network that can be designed and operated to minimize costs and maximize efficiencies.[133]

3. Internet Services

The merger will stimulate increased competition in the national market for Internet services. Local phone companies provide much of the lower-speed Internet access over conventional, circuit-switched dial-up lines. Internet access is provided by almost 4,500 Internet service providers ("ISPs") in North America, including the major IXCs. The Internet's backbone networks are operated by some 29 national providers, including WorldCom/UUNet, MCI (whose Internet business is being sold to Cable & Wireless), GTE and Sprint, among others.[134] Regional Bells are not, of course, numbered among them.

Teligent Press Release, Teligent Reports First Quarter Financial Results (May 12, 1998), available at <http://www.teligentinc.com/news/rdlb.html>.

[132] See, e.g., In re Bell Atlantic Mobile Systems, Inc. and NYNEX Mobile Communications Co., Order, 10 FCC Rcd. 13368, ¶ 48 (1995) (citing In re Application of Corpus Christi Cellular Telephone Co., Memorandum Opinion and Order, 3 FCC Rcd. 1889 (1988)).

[133] As discussed above, the merger will not reduce competition in any paging market.

[134] See Bill McCarthy, Directory of Internet Service Providers, Boardwatch Magazine, Winter 1998, at 5; J. Rickard, Measuring the Internet, Boardwatch Magazine Directory of Internet Service Providers, July/Aug. 1997, at 20.

In addition to these providers, cable operators are rapidly upgrading their networks to offer high-speed data services[135] and are already supplying high-speed cable modem service in a number of states in the SBC and Ameritech regions. See Schmalensee/Taylor Aff. ¶ 61; Table 13 at the "Tables" attachment. Over 11 million (10 percent) of all U.S. homes already have access to high-speed cable modem service. A number of new "data CLECs," as well as more established CLECs like AT&T/TCG/TCI and Intermedia, are now providing competitive digital subscriber line services throughout the U.S. At least five such companies already provide such services in California: Covad, NorthPoint Communications, WorldCom/MCI/MFS/Brooks/ UUNet, Rhythms NetConnections, and ACI.[136] Several digital satellite networks are expected to be fully operational shortly, including Iridium (Fall 1998), GlobalStar (1999), Ellipso (2001), Astrolink (2001), Spaceway (2001) and Teledesic (2003); each of these networks plan to offer both voice and data services, and may provide Internet access.[137]

---

[135] See generally Cable Datacom News, Commercial Cable Modem Launches in North America (visited July 20, 1998), <http://cabledatacomnews.com/cmic7.htm> (showing that more than 40 companies have deployed commercial cable modem services in over 50 cities). Microsoft has invested $1 billion in Comcast and over $200 million in Road Runner, a cable-based Internet access company. See A. Gould et al., Oppenheimer & Co. Inc., Media Stocks: Cable Stocks Reconsidered – Industry Report, Investext Rpt. No. 2562652, at *2 (Jul. 3, 1997) (stating "[t]he $1 billion Microsoft investment clearly points to the cable infrastructure as the preferred provider of high-speed data."); Microsoft Press Release, Microsoft Invests $1 Billion in Comcast (June 9, 1997), available at <http://www.microsoft.com/presspass/press/1997/jun97/ comcaspr.htm>; Microsoft, Compaq Get in on Road Runner, L.A. Times, June 16, 1998, at D18.

[136] See Petition of Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell for Relief from Regulation, CC Dkt. No. 98-91, at 15-17 (FCC filed Jun. 9, 1998).

[137] See Iridium LLC Reports Second Quarter Results, PR Newswire, July 14, 1998 at 18:12:00; J. Moran, Satellite Use Boom is Taking Communications to New Level, Star Tribune, June 21, 1998, at 7D; News Briefs, Mobile Satellite News, July 9, 1998; Ellipso, Inc. Meets Construction Milestone, PR Newswire, June 22, 1998 at 10:35:00; Lockheed Martin Touts Its Astrolink System, Communications Today, Sept. 19, 1997; Satellites Will Fill Global Skies, Asia-Pacific Telecommunications, Apr. 1, 1998 available in 1998

As described in Section II.A, above, the new SBC plans to deploy high-speed data networks and services as part of the National-Local Strategy. In addition, both Ameritech and SBC are now beginning to deploy these services within their respective regions. As discussed in Section II.E, above, the deployment of Internet and other high-speed data services requires a significant investment in new technology, and a large learning curve. The merger will spread development costs and risks across a broader base, sharply reducing unit costs and accelerating the delivery of new services to market.

SBC and Ameritech are tiny players in the market for Internet services today; holding less than 2% of the national market combined.[138] The only effect of this merger will to be to create a company better able to compete in a critically important, rapidly growing market that is dominated by other companies.

4. Long Distance and International Service

The merger will help reduce concentration and promote competition in long distance and international markets alike. As the Commission has found, the interexchange market today is less than fully competitive, particularly in residential markets.[139] AT&T, WorldCom/MCI, and Sprint together earn over 80 percent of U.S.

WL 10658895; J. Robertson, Telecom EOMs Battle Local Bells Over xDSL Data Right, Electronic Buyers' News, July 13, 1998, available at 1998 WL 13059021.

[138] Moreover, SBC and Ameritech do not provide Internet access service in overlapping areas.

[139] See In re Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services In Michigan, Memorandum Opinion and Order, 12 FCC Rcd. 20543, ¶ 16 (1997) (noting that "not all segments of [the long distance] market appear to be subject to vigorous competition," and in particular, "the relative lack of competition among carriers to serve low volume long distance customers."). Chairman Kennard recently wrote to the CEOs of the three largest IXCs "regarding the growing body of evidence that suggests that the nation's largest long distance companies are raising rates when their costs of providing

long distance revenues.[140] The market is still characterized by a considerable degree of consciously parallel pricing by the three major facilities-based carriers.

As described in Section II.A, above, the new SBC will add a significant measure of new competition to this market. The company will market long distance service along with local exchange, Internet access, and other services in 30 of the largest markets outside of its region. By capturing a credible share of domestic long distance traffic out-of-region, and in-region once Section 271 approvals are secured, the merged company can only add to competitive choices in this very large market.

The company is equally committed to compete in providing service on U.S.-international routes, which are often less competitive than the domestic long distance market. AT&T, MCI/WorldCom and Sprint account for nearly 82 percent of all U.S. international telecommunications revenue.[141] SBC and Ameritech possess complementary international strengths that will position the new SBC as one of a smaller number of global competitors. No other U.S. carrier has invested as much in foreign telecommunications carriers as the combined SBC/Ameritech. Moreover, as described in Section II.C, the new SBC plans to expand its international presence significantly, building facilities in 14 foreign cities to serve large national and international business

---

service are decreasing." Letters from Chairman Kennard to Michael C. Armstrong, Bert Roberts and William T. Esrey, February 26, 1998.

[140] FCC, Long Distance Market Shares: First Quarter 1998 table 3.2 (June 1998), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State-Link/ixc.html#marketshares>.

[141] See FCC, Long Distance Market Shares: First Quarter 1998 table 5.1 (June 1998), available at <http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State-Link/ixc.html#marketshares>.

customers. For U.S.-based companies, this should lead to lower international termination rates and lower costs in conducting international business operations.

5. Global Seamless Services for Large Business Customers

The merger of SBC and Ameritech will also provide substantial benefits by creating a strong new competitor offering sophisticated, integrated telecommunications services to large global customers. As the Commission has repeatedly noted in recent years, large national and transnational business customers occupy a discrete market of their own. This product market, the Commission has concluded, is for "Global Seamless Services" and is "of worldwide geographic scope."[142] This market is populated by the most demanding customers – customers with the most far-flung locations to connect and with the most sophisticated demands for advanced services. It is competition in this critical market that will ultimately propel and define competition in more familiar markets, such as the markets for local and long distance service to residential and small business customers.

The new SBC will rank among the few enterprises with the resources, scale and international presence to compete on a truly global scale. The company will have the economies of scope and scale essential to permit it to develop integrated services and market them worldwide, at competitive prices. It will also have a large base of employees with the technical skills needed to build local exchange businesses from the ground up, and the financial strength and reputation for reliability it will need to compete effectively in this market. Just as the merger will permit the new SBC to follow its customers wherever they

---

[142] See In re Request of MCI Communications Corp. and British Telecomm. plc, Declaratory Ruling and Order, 9 FCC Rcd. 3960 (1994) ("BT/MCI I"); In re the Merger of MCI Communications Corp. and British Telecomm. plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351 (1997) ("BT/MCI II").