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Public Comment on behalf of
South Austin Community Coalition Council,
Walter Ryan Jr., Theodore Chabraja, Anita B. Hull and Robert Rifkin

October 15, 1998

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Public Comment on behalf of
South Austin Community Coalition Council,
Walter Ryan Jr., Theodore Chabraja, Anita B. Hull and Robert Rifkin[1]

I. Introduction

A. Summary of Comment

There is no benefit for consumers from this proposed merger. (Merger of SBC Communications, Inc. and Ameritech Corporation, Description of the Transaction, Public Interest Showing and Related Demonstrations, Filed with the FCC, July 24, 1998, at 38-49) (Hereinafter, Merger App.) The Applicant's section devoted to "benefits for consumers" focus almost exclusively upon the "cost savings and enhanced revenues for the combined company" only alluding to "new product development and marketing, purchasing discounts and the elimination of duplication" as customer benefits. (Emphasis added, Merger App. at 38-39). Thereafter, the Applicant's express that this merger enhances revenue increases, due to "synergies." Id. Such benefits may increase the companies profits, but they do nothing for the consumers who will be deprived of a choice between SBC and Ameritech.

The result of this proposed merger is only the elimination of actual and potential competition. This Commission should reject, without acceptance of pro-competitive steps or assurances, this merger application because it is in direct opposition to Congressional intent to spur competition embodied in the Telecommunications Act of 1996 and in violation of the U.S.

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[1]The commenters have filed a class action lawsuit challenging the merger of two of the Regional Bell Operating Companies ("RBOC") as anticompetitive under the federal antitrust laws: entitled - South Austin Coalition Council, Walter Ryan Jr., Theodore Chabraja, Anita B. Hull and Robert Rifkin v. SBC Communications, Inc. and Ameritech Corporation, 98 CH 3014, In the United States District Court for the Northern District of Illinois, Eastern District.

Antitrust Laws.

The merger will combine two competing RBOCs and stifle competition that had finally actually begun between these two large competitors and eliminate any future competition between them. (Merger App. at 59-60). By rejecting this merger application, the Commission has the opportunity to halt consolidation in the name of competition and encourage outright competition among RBOCs for local telephone service.

An analysis of the legislative history of telephony regulation demonstrates that Congress intended for fierce competition to arise as a result of the passage of the Telecommunications Act of 1996 and the creation the RBOCs in the wake of the MFJ. Instead, this merger permanently eliminates competition between these two parties. The flaw here is that either of these two companies are the only companies that could and would have attempted the competition in this geographic market. They could have competed against each other or with other RBOCs up until today, but have not. The promise to compete in the "National Local" plan is indefinite, and subject to changing business conditions. However, it implies that the combined company might compete in other markets, not in markets being merged into one. After the merger is complete, the FCC could not force the new SBC to compete in these other markets, if the business climate sours. These companies have hardly tried to compete, instead remaining cozy in their regional existence. (Merger App. at 12, 52, 70). The National Local strategy "puts the carriage before the horse". It is a coy promise that instills hope for future competition that is not guaranteed. While all the previous mergers of the former RBOCs has promised competition in the future, it simply has not occurred, certainly not for local service, and the time for tolerating more empty promises is done.

This Commission's own experience with the approval in the NYNEX and Bell Atlantic merger demonstrates that this merger application should not be compromised by mere assurances that are not able to be relied on or enforced for real. This Commission should not be satisfied by elusive promises to create pro-consumer competition as a substitute for competition or as a condition necessary to create competition.

The Commission should reject this current merger application outright because the consolidation of these two telephone service companies will result in direct lessening of competition within their geographic service areas with resulting loss and damage to all customers within each companies local service geographic area. Furthermore, the consolidated entity will exercise monopoly power and lessen potential competition in the relevant markets from other local telephone service providers.

B. The Parties

The Commenters. South Austin Community Coalition Council (SACCC) is an Ameritech Corporation customer and its members include Ameritech Corporation customers. Organized in 1976, SACC is a grassroots community organization. Their purpose is to improve the quality of life in the Austin area (a Chicago, Illinois neighborhood) by community action. They have been active in fighting crime, rehabilitating housing, increasing sanitary and safety services, working to decrease unemployment, eliminating utility shutoffs, and reducing "redlining" practices of insurance companies. The other commenters are individual customers of Ameritech.

The Merging Companies. SBC Communications Inc. (SBC), is a Texas corporation. It is headquartered in San Antonio, Texas, and transacts business in Texas, other southern and

western states, moving east in Iowa and Missouri right up to Ameritech's western local service boundary in Illinois, and internationally (California, Nevada, Texas, Oklahoma, Nebraska, Missouri, and Mississippi). Ameritech Corporation (Ameritech) is a Delaware corporation. It is headquartered in Chicago, Illinois, and transacts business in Illinois and other Midwest states (Illinois, Wisconsin, Michigan, Indiana, and Ohio).

II. Merger and consolidation are not competition, this trend is wrong -- not intended by the Congress when it passed the Telecommunications Act of 1996 and in violation of the Antitrust laws.

Of the seven original RBOCs created in the Modified Final Judgement (MFJ) (Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Telesis, SBC Communication, and U.S. West) the two mergers of (1) Bell Atlantic with NYNEX into a single Bell Atlantic, and (2) Pacific Telesis with SBC Communications into a single SBC Communications, leaves only five remaining companies controlling all local telephone service nationwide. With this merger of SBC and Ameritech, the reconsolidating of these three RBOCs (Pacific Telesis, SBC, and Ameritech), annuls a substantial portion of the consent decree, and goes along way towards reconsolidating an industry whose division into eight equals was the key reason for breaking up Ma Bell in the first place. .

The Telecommunications Act of 1996 enacted in the wake of the MFJ was intended to enhance competition not enhance consolidation of competitors, a brief review of the Telephony regulation puts this merger and its impact on competition in perspective.

A. Congress Intended for Fierce Competition Between the RBOCs thereby Protecting Competition: a Short History of Telephony Regulation, the MFJ and the Telecommunications Act of 1996.

In 1974, the Department of Justice changed telecommunications in the United States by

bringing a Sherman Act suit against AT & T. SBC v. FCC[2], 1998 WL 568362, at *1 (5th Cir. Tex. Sept. 4, 1998); (citing, United States v. AT & T, 461 F.Supp. 1314 (D.D.C.1978)). Before this groundbreaking suit, telecommunications was dominated in the United States by one company, AT&T, for virtually all local and long distance service. Id., at *1. This suit launched a "broad-based attack on the system"charging AT&T with using "state-granted local service monopolies to also monopolize the markets in long distance service and telecommunications equipment" in violation of the Sherman Act. Id. AT&T conceded this major point and the settlement that occurred is known as the "AT&T Consent Decree or Modified Final Judgment ("MFJ")." Id.

The prominent feature of the MFJ was that AT&T "was required to divest itself of its twenty-two local exchange subsidiaries, which became known as the Bell Operating Companies" which were "grouped into seven "regional Operating Companies" or "RBOCs." Id.. These companies were "barred from competing in the markets for long distance" and other activities. Id.

Later Congress drafted regulations to replace and supplement the MFJ which became law as the Telecommunications Act of 1996. Id., at *2. "[T]he core function of the Act is to provide for a pro-competitive, deregulatory national policy framework ... by opening all telecommunications markets to competition." Id. (quoting H.R. Conf. Rep. No. 104-458, at 1 (1996). "To effectuate this goal, the Act prohibits states and localities from sanctioning local

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[2] SBC v. FCC is the most recent challenge by SBC to the provisions of the Telecommunications Act of 1996 claiming the procompetitive portions of the Act are illegal as a Bill of Attainder. The 5th Circuit held that this was not so. In SBC v. FCC, the court provided a concise history of antitrust and telecommunication regulation in the United States.

service monopolies." Id. It also places duties and restrictions on all local telephone service providers ("Local Exchange Carriers," or "LECs") to prevent a recurrence of the uncompetitive use of local service market power that occurred under the Bell System. 47 U.S.C. § 251-52. SBC v. FCC, 1998 WL 568362, at *2.

The Telecommunications Act embodies Congress' action to ensure local competition. The Act requires RBOCs to open up their networks to allow potential entrants access. To tempt the RBOCs to do this, the act offers the carrot of entry into the long distance market if they open up their local service monopolies to competition. "[T]he 1996 Act restricts the Baby Bells from offering long-distance services originating within their regions until they eliminate the barriers to local competition. The Baby Bells must either provide one or more facilities-based competitors with access to their networks or demonstrate that no such competitor has requested access. Furthermore, the Baby Bells must have implemented the interconnection requirements set forth in a fourteen-point 'competitive checklist.'" Thomas A. Piraino, Jr. A Proposed Antitrust Analysis of Telecommunications Joint Ventures, 1997 Wis. L. Rev. 639, 652.

Instead of chasing the carrot, SBC fought back with a stick. Rather than follow this regulatory framework, SBC instead sued to have it declared an unconstitutional Bill of Attainder. This case is soon before the United States Supreme Court. See, SBC v. FCC, 154 F.3d 226 (1998). The Commission should not approve this merger in any fashion, if this merger is even approvable, prior to a Supreme Court decision. SBC and other RBOCs have also used the merger of RBOCs to fight the pro-competitive framework. The RBOCs are now trying to reconsolidate. Eventually, this will reconstitute the national company that was destroyed for antitrust grounds by the MFJ. Two such mergers of RBOCs were the SBC merger with

PACTEL and the NYNEX merger with Bell Atlantic, both occurring after the passaged of the Telecommunications Act of 1996.

B. The Merger Application should be rejected because it falls short and is in violation of the Federal Antitrust Standard.

The Sherman Act, Section 18, provides,

> No person engaged in commerce or in any activity affecting commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no person subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another person engaged also in commerce or in any activity affecting commerce, where in any line of commerce or in any activity affecting commerce in any section of the country, the **effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly**. 15 U.S.C. § 18 (emphasis added).

Telephony is not exempt, but within this standard. The repeal of the antitrust laws is not to be lightly assumed." Ricci v. Chicago Mercantile Exchange, 409 U.S. 289, 303 (1973); See, U.S. v. Philadelphia Bank, 374 U.S. 321, 350 (1963). Telephony's former antitrust immunity has been repealed by the Telecommunications Act of 1996. See, 47 U.S.C.§221(a)[3]. "[N]othing in this act ... shall be construed to modify, impair or supersede the applicability of any of the antitrust laws." See §601(b)(1). Although, the Communications Act of 1934 had allowed "competing telephone companies to merge without facing antitrust scrutiny" Congress has

[3] §221(a) of the Communications Act and the amendment of the last paragraph of the Clayton Act to removed the FCC's authority to exempt telephone company mergers from federal antitrust laws. Joseph Angland ed., Antitrust Law Developments (Fourth) Vol. II, 1160, ABA Antitrust Law Section (1997).

expressly revoked that immunity. Thomas A. Piraino, Jr. A Proposed Antitrust Analysis of Telecommunications Joint Ventures, 1997 Wis. L. Rev. 639, 704 fn. 21 (1997).

In this merger, SBC and Ameritech have told the FCC that this merger is pro-consumer because the company's size will enable it to compete for local service in other RBOC territories. (Merger App. at 12). While there is no more assurance that this will happen in the future at all, since it never arose in all of these parties consolidated markets, it makes it even less likely that it will occur at all anywhere, at least while aggressive companies know they can merger rather than compete. Congress has rejected this strategy in the Telecommunications Act of 1996, by requiring competition to enter long distance markets, and tying sales in competing geographies to opening up one's own local market, it did not consider the consolidation of the industry as an option for enhancing competition. Indeed, this merger turns back the clock, eliminates competition among the RBOCs for local service these companies are taking a step to recreate super-regional, and approaching one dominating phone company providing local service. Even on its face, SBC's argument that a single larger carrier would be "pro-consumer" is worthless rhetoric. The antitrust laws protect competition not consumers. Thus a monopoly is still illegal even if it operates more efficiently than the company would if it faced competition.

III. NYNEX/Bell Atlantic merger experience provides this Commission an example of its own making for rejecting this merger: mere pro-consumer assurances should not satisfy this commission in approving this application because they are empty "campaign promises" that are just not met.

The NYNEX / Bell Atlantic merger approval by the FCC illustrates why this merger should not be approved. In that merger, the FCC stated the companies failed the antitrust review.

But the FCC still approved it based on conditions trying to offset the antitrust problems.[4] Even

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[4] The FCC ruled that merger failed to meet the standard needed for approval, but approved it upon proposed commitments: "the merger on its terms alone and without any other considerations, we believe that Applicants have failed to carry their burden of showing, under the public interest standard, that entry would be sufficiently easy to mitigate the potential harms to competition from merging the leading and no less than fifth most significant participant in the market for providing telecommunications services to residential and small business customers. Applicants also have not carried their burden of demonstrating, under the public interest standard, that efficiencies generated by the merger will mitigate entirely the potential competitive harms. On July 19, 1997, however, Bell Atlantic and NYNEX proffered a series of commitments they would be willing to undertake as conditions of the approval of their merger." 12 F.C.C.R. 19985, Para 12.

The commitments made were that: "Bell Atlantic and NYNEX agree to provide detailed performance monitoring reports to competing carriers, states and this Commission, regarding network performance and the performance of their operating support systems ("OSS"). Bell Atlantic and NYNEX further commit to negotiate performance standards and enforcement mechanisms, including private or self-executing mechanisms, covering all five aspects of OSS (pre-ordering, ordering, provisioning, repair and maintenance, and billing) and network performance. They also agree to develop and implement, within 15 months, uniform OSS interfaces covering the entire Bell Atlantic/NYNEX combined regions, and to develop uniform interfaces within their current respective regions within 120 days. Bell Atlantic and NYNEX will engage in carrier-to- carrier testing of OSS systems with any carrier that requests such testing, and will provide evidence to this Commission of Bell Atlantic's and NYNEX's ability to handle reasonably expected demand for all OSS functions with respect to resold services, unbundled network elements and combinations of unbundled network elements. Bell Atlantic and NYNEX also commit to offer interconnection, unbundled network elements and transport and termination at rates based on forward looking economic cost. They further agree to provide for purchase, in conjunction with unbundled switching, shared transport offered on a minute-of-use basis, routed in the same manner as Bell Atlantic and NYNEX route their own traffic, and without the imposition of access charges. Bell Atlantic and NYNEX further agree to offer an optional plan that assesses non- recurring charges on a recurring basis, and an installment payment plan for collocation and certain other large non-recurring charges. Bell Atlantic and NYNEX also agree to offer, in interconnection negotiations and arbitrations, payment mechanisms for common construction costs and interconnection-specific construction and equipment costs related to collocation that apportion costs among the incumbent LEC and collocating carriers consistent with the Commission's decision in its Second Physical Collocation Order." 12 F.C.C.R. 19985, Para 13.

with these changes imposed by the FCC upon those merging companies have not created the type of fierce competition that SBC and Ameritech have promised will occur if they are allowed to merger.

The FCC stated that these "conditions create pro-competitive benefits that at least in part mitigate the potentially negative impacts of the proposed merger on competition" 12 F.C.C.R. 19985, Para 14. The FCC acknowledge that in the future similar applicants would not necessarily be able to make these same kind of concessions to receive approval, in fact the FCC was worried about the reduction in the number of LECs and its ability to effectively determine the issues it faces, including the antitrust issues. [5]

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[5] "Granting this application subject to conditions does not mean applicants will always be able to propose pro-competitive public interest commitments that will offset potential harm to competition. .... A merger that in the relevant markets, eliminated a competitor with even greater assets and capabilities then Bell Atlantic would present even greater competitive concerns. For some potential mergers, the harm to competition may be so significant that it cannot be offset sufficiently by pro- competitive commitments or efficiencies. In such cases, we would not anticipate the applicants could carry their burden to show the transaction, even with commitments, is pro-competitive and therefore in the public interest. .... 16. We also note that we are concerned about the impact of the declining number of large incumbent LECs, on this Commission's ability to carry out properly its responsibilities to ensure just and reasonable rates, to constrain market power in the absence of competition, and to ensure the fair development of competition that can lead to deregulation. During the transition to competition it is critical that the Commission be able effectively to establish and enforce its pro-competitive rules and policies. As diversity among carriers declines, both this Commission and state commissions may lose the ability to compare performance between similar carriers that have made different management or strategic choices. We often rely, for example, on cross-carrier comparisons as strong evidence as to technical feasibility or reasonableness. The Bell Companies, being of similar size, history, and regional concentration have, to date, been useful benchmarks for assessing each other's performance. Reducing the number of Bell Companies makes it easier to coordinate actions among them, and increases the relative weight of each company's actions on average performance. Because we approve this merger with conditions, thereby reducing the number of independently controlled large incumbent LECs, future applicants bear an additional burden in establishing that a proposed merger will, on balance, be pro-competitive and therefore serve the public interest, convenience and necessity. 12 F.C.C.R. 19985, Para 15 and 16.

We remind the FCC of their previous statements. Promises of future pro-consumer concessions are not enough to approve this merger or to offset the competitive concerns. As long as companies can combine, they do not have to compete, because the promises just do not come true. What follows next are the serious competitive concerns this merger application creates.

IV. Adverse impact on consumers and violation of the Antitrust standard.

If approved, the resulting company will be the nation's largest local phone company. Considering SBC's combination with previous competitors, the combination of these two competitors will result in the consolidation of three of the original seven RBOCs (Ameritech, Southwest Bell, and Pacific Telesis) into one company. The purpose of the consent decree creating the seven RBOCs was to establish competition among them by breaking up the AT&T telephone industry monopoly. Both SBC and Ameritech have monopolies of local phone service within their respective local area markets. The new company created by the combination of these two competitors will operate in 12 states. The new company created by this combination of competitors will control 31% of the Telephone Access Line Market in the United States. (Graphic, And then there were four? Investors Business Daily, May 12, 1998, Attached as Exhibit A; Reinhardt Krause, Will Phone Field Benefit From AT&T-Like SBC?, Investors Business Daily, May 12, 1998, Attached as Exhibit B). SBC's and Ameritech's present monopoly control over both of their local markets will continue and be expanded.

A. Other Competition For Local Telephone Service is Slight and the Existence of Barriers to Entry Are Very High.

The Applicants rely upon the growth of "competitive local exchange carriers" CLECs to justify the necessity of the "National Local" plan, but this competition is not a major threat to the

RBOCs dominance. (Merger App. at 50). There are approximately one dozen CLECs in competition for local telephone service with the existing RBOCs. (Stephanie N. Mehta, Bell Merger Bedevils Local-Service Rivals, Wall Street Journal, May 12, 1998, Attached as Exhibit C). CLECs provide local phone service as a competitor to a RBOC by providing a local parallel function as MCI does in long distance service to AT&T.

Although, in theory, CLECs provide an alternative and competition to RBOCs for local service, there is none in fact. There is very little actual competition generated by CLECs because while they are growing, they still only control less than 1% of local telephone lines[6] and they never reach a sufficient size to cause any fear. The four largest CLECs (USN Communications Inc., McLeodUSA, Intermedia Communications Inc., and ICG Communications Inc.) together control only approximately 838,000 local service lines of 178 million local service lines in the United States. (Stephanie N. Mehta, Bell Merger Bedevils Local-Service Rivals, Wall Street Journal, May 12, 1998, Attached as Exhibit C). CLECs face tremendous barriers to entry into new markets; including:

> a) a belief by consumers that it is illegal to buy local service from another provider besides a RBOC;
> b) suspicion, wariness, and concern by consumers to buy or change local service based upon the unrelated sharp business practice of "phone slamming";
> c) difficulty, delay, and cost in switching customers from a RBOC service provider to a competitor based upon real or perceived processing problems of the "Baby Bell" carriers. (Stephanie N. Mehta, Bell Merger Bedevils Local-Service Rivals, Wall Street Journal,

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[6](Stephanie N. Mehta, Bell Merger Bedevils Local-Service Rivals, Wall Street Journal, May 12, 1998, Attached as Exhibit C; See, Before the FCC, In Re En Banc on State of Local Competition,< http://www.fcc.gov/ enbanc/ 012998/tr012998.txt> last visited 5/14/98 (A panel hearing about the current state of local competition held in January, 1998); See, Trends in Telephone Service, Industry Analysis Division Common Carrier Bureau, FCC February 1998, <http://www.fcc.gov/ccb/stats [file name Trend198.ZIP], last visited 5/14/98).

May 12, 1998, Attached as Exhibit C).

B. Post Merger Concentration of the National Market

The most dramatic evidence this Commission should consider it the Post Merger concentration of the National Market. An accepted index of market concentration and its anticompetitive impact is the "Herfindahl-Hirschman Index" (HHI). HHI is an aid to the interpretation of market data. Market concentration is a function of the number of firms in a market and their respective market shares. HHI is calculated by summing the squares of the individual market shares of all the participants. The Department of Justice and the FTC use this index in its Merger Guidelines. The post merger HHI for local telephone service will be above 1800, thus considered highly concentrated. The merger will produce an HHI increase of more than 400 points. (Graphic, Telephone Access Line Market Share, Investors Business Daily, May 12, 1998, Attached as Exhibit A).

Company	Present Market Share	Present HHI	Post Merger Market Share	Post-Merger HHI
SBC	19%	361	31%	961
Ameritech	12%	144	N/A	N/A
Bell Atlantic	23%	529	23%	529
US West	14%	196	14%	196
Bell South	13%	169	13%	169
GTE	12%	144	12%	144
Others	7%	49	7%	49
Total	100%	1592	100%	2048 (456 Increase)

Thus, the DOJ Guidelines clearly require the merger be rejected.

C. Assurances of Competition are unenforceable, tenuous at best and these companies admittedly do not have a record of success in breaking open new competition in new markets

1. Unenforceable and Unaccountable

At the time of the announcement of this proposed merger, the applicants made self serving public statements that this merger will give them the financial wherewithal to compete against the other RBOCs for local telephone service. The RBOCs past actions show this to be untrue. (See, John J. Keller, Pressure Mounts for Phone Company, Wall Street Journal, May 12, 1998, Attached as Exhibit D). The proposed merger shows an intention to combine with other RBOCs rather than compete with them. Thus, recreating a monopolistic company. Mr. Whiteacre, Chairman of SBC, was quoted in the New York Times, "We're going to put an end to this conversation that no competition is developing in the residential market. We're promising to develop that competition." The New York Times reported, based upon Mr. Whiteacre's comments, the new company would "aggressively seek to move into the markets of the other RBOCs. SBC named New York City, now served by Bell Atlantic Corporation, as its prime target." But, as the New York Times also reported, "When Bell Atlantic and Nynex were lobbing for approval of their merger, they said the deal would give them the financial muscle to invade the territories of other Bells. But Bell Atlantic has not done so to any significant degree, leading to chagrin in some quarters of the FCC. Now SBC is making the same argument." (Seth Schiesel, $62 Billion Deal To Shift Balance In Phone Industry, Third of Market At Stake, Deal For Ameritech Continues Reversal of 1984 Breakup From 7 Baby Bells to 4, New York Times, May 12, 1998, Attached as Exhibit F). This statements from the time of the merger announcement are now the cornerstone and main feature of the Application. (Merger App. 11-

59).

These large companies claim poverty, stating that only because of this merger will there be "the critical mass necessary to" jump start extra-regional competition. (Merger App. 11). The application asserts that "neither SBC nor Ameritech" has the "scale, scope, resources, management and technical ability to implement the proposed national and global strategy on its own." (Merger App. at 52). This is simply untrue, but lacks any support anyway. These are huge companies, already among the largest in the world.

However, there is no guarantee that a positive business environment will continue or that these companies will follow through with this business plan. An unwinding of this merger after a poor showing or ceasing of this business plan is unimaginable, simply not on the table and unpalatable. The FCC could not force the new SBC to enter these markets if they decide that market conditions are not ripe for entry. Consumers are at the whim of the new SBC who would be unaccountable after the merger if approved.

2. Admittedly unsuccessful and inexperienced in RBOC competition

SBC and Ameritech do not have experience in competing with other RBOCs. They only few experiences have not been successful. They are admittedly unsuccessful and inexperienced in creating competition in new markets. (Merger App. at 70, description of SBC's "disappointing" failed 1997 Rochester, New York experience). The application shows that these companies have very little experience in direct competition with other RBOCs having preferred to consolidate or remain isolated regional companies. (Merger App. at 57, 58).

The applicants admit that they have not had experience in competition with other RBOCs. They concede that Ameritech entry in St. Louis was "defensive" and similar to the

unsuccessful venture in Rochester. (Merger App. at 72).

For these reasons this Commission should be unimpressed and unpersuaded that these promises of increased competition are anything but an unenforceable panacea, leaving consumers at the whim of an unaccountable new SBC.

D. Elimination of Potential Competition Between The Merging Companies

Prior to announcing this merger plan, Ameritech had announced plans to enter SBC's St. Louis market to compete for local telephone service customers. (Merger App. 72).

Thus, this merger will also eliminate the possibility of their competing against each other by establishing local service in the most likely new expansion areas (i.e. each other's neighboring pre-merger markets).

The merger will also lessen competition nationally for local telephone service. The merged company will lessen competition in that it decreases the substantial present likelihood of the two companies to compete against each other. Prior to the negotiations of the relevant merger herein, Ameritech had planned to compete with SBC by offering local telephone service in the St. Louis market where SBC is dominant. Under the merger plan, that competition will be eliminated. There will not be any competition in the St. Louis market. (Bryan Gruley, John Simons and John R. Wilke, Alarm Bells: Is this Really What Congress Had in Mind with The Telcom Act?, Wall Street Journal, May 12, 1998, Attached as Exhibit G). As a result of the merger, there will also be areas of product overlap in Chicago, Illinois, and St. Louis, Missouri, regarding the product of cellular phone service, thus eliminating the small portion of business in which the defendants do actually compete. (Bryan Gruley, John Simons and John R. Wilke, Alarm Bells: Is this Really What Congress Had in Mind with The Telcom Act?, Wall Street

Journal, May 12, 1998, Attached as Exhibit G).

This merger is a violation of the Sherman Act because competition for customers will be eliminated, and, at the very least, "the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly" and threatens injury to all consumers and others similarly situated.

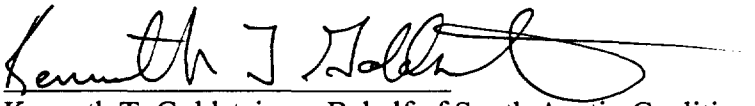
E. Competitive Concerns regarding ancillary products and a lack of competition

Finally, this proposed merger raises other competitive concerns. A combined company also has a preferred position is sales of ancillary products that is not open to other competition. These products include sale of equipment, maintenance, caller I.D., Internet access and a host of other services. This preferred position makes other outside competitors unlikely to compete. The harm is that consumers do not face competition for service and again for add on services that are ancillary. Thus, consumers are harmed twice for a lack of competition.

V. Conclusion and request for public hearing and opportunity to present testimony

The commenters ask this Commission provide a public hearing in which we may present testimony to the Commission. And in conclsuion, we respectfully request this Commission to reject the application of merger.

Respectfully submitted,



Kenneth T. Goldstein on Behalf of South Austin Coalition Council, Walter Ryan Jr., Theodore Chabraja, Anita B. Hull and Robert Rifkin

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PROOF OF SERVICE

I, Kenneth T. Goldstein, an attorney, on oath state that I caused a copy of this Comment notice to be served by U.S. Mail postage paid upon all parties mentioned on the attached Service List, at their respective addresses on October 15, 1998.

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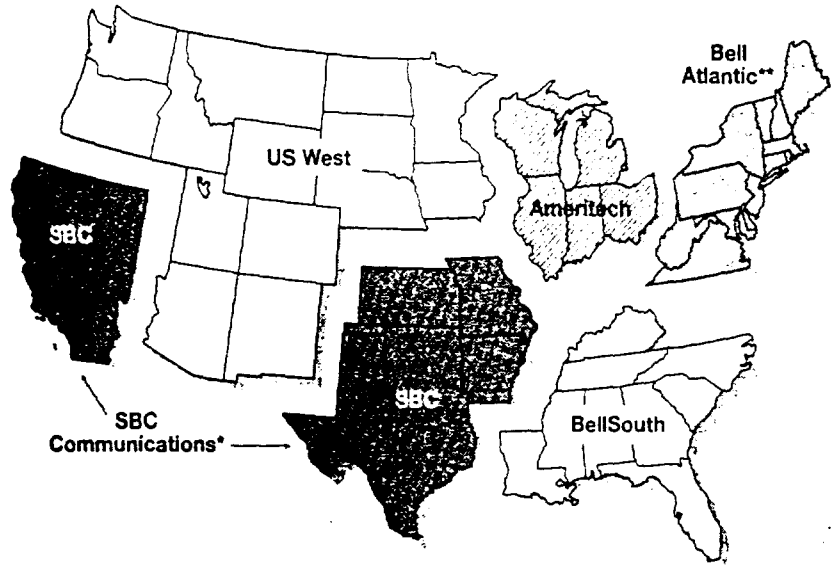
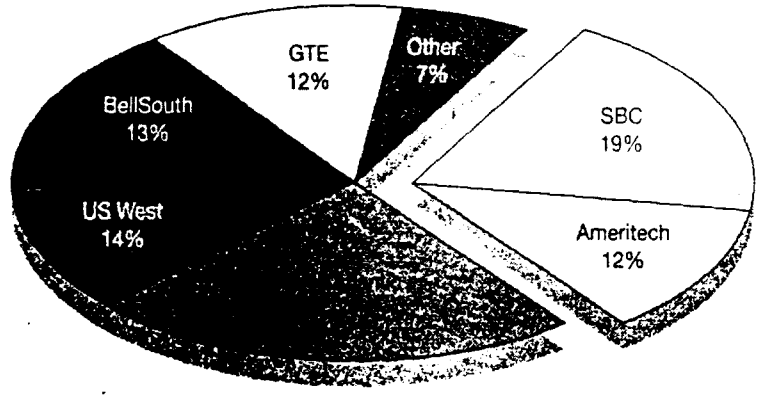
DATA BUS

And Then There Were Four?

▶ An SBC acquisition of Ameritech would shrink the ranks of the original 'Baby Bells' to four, from seven



Telephone Access Line Market Share
Based on 178 million U.S. lines



Source: Company reports

*Acquired San Francisco-based Pacific Telesis in April '97
**Acquired New York-based Nynex in August '97

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Citation Search Result Rank 1 of 1 Database
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1998 WL 11850449
(Publication page references are not available for this document.)

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Tuesday, May 12, 1998

Computers & Technology Will Phone Field Benefit From AT&T-Like SBC?
Reinhardt Krause

The proposed $57 billion merger of SBC Communications Inc. and Ameritech Corp. could hinge on how far federal regulators will go in letting the Baby Bells pool resources to fight their telecom battles.

The key issue for regulators: Will the proposed SBC-Ameritech merger hinder competition? Regulators likely worry that it might, but the two companies think otherwise.

"I liken this to Viagra for competition," said Ameritech Chief Executive Richard Notebaert. "It's what's really needed to stimulate a fully competitive environment."

But SBC, which wants to buy its smaller Bell sibling, would gain so much clout in local phone markets that regulators might well be cautious, analysts say.

"My guess is the DOJ (Department of Justice) will give it a real close look and may try to stop it," said Daniel Reingold, an analyst at Merrill Lynch & Co. He believes the DOJ would fail to make an antitrust case.

SBC-Ameritech would own about one-third of phone lines to residential and business customers in the U.S. SBC is growing fast. It bought Pacific Telesis Group for $16.7 billion last year and plans to spend $4.4 billion to buy Southern New England Telecommunications Corp.

Shareholders for both companies likely will view the deal as giving SBC the size it needs to emerge as one of a handful of major players in the telecom industry, analysts say.

Certainly SBC would pose a serious threat to the likes of AT&T Corp., once the Bells are allowed to offer long-distance phone services.

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(Publication page references are not available for this document.)

"This kind of horizontal integration is very positive for a Bell company," Reingold said. "We'll probably see some more."

The SBC-Ameritech merger would leave just four Bells from the seven that existed when Congress passed the Telecommunications Act of '96. Besides SBC-PacTel, the Federal Communications Commission and DOJ last year approved the merger of Bell Atlantic Corp. and Nynex Corp.

San Antonio-based SBC even talked merger in '97 with AT&T, but federal authorities reportedly squelched those talks on antitrust concerns. That left SBC, which has been the most aggressive of the Baby Bells, focusing on other Bells.

"They see their growth as geographic expansion," said Jeffrey Kagan, president of Kagan Telecom Associates Inc., a consulting firm in Atlanta. "They're growing their base of customers, growing their influence."

But how much influence is SBC gaining? Regulators will take a look.

"It'll get more scrutiny than the two previous (Bell) mergers," said George Dellinger, an analyst with researcher HSBC Washington Analysis. "The odds of it getting blocked -because of increased concentration - are probably below 50%, but it could take two years to get done."

Some analysts say SBC is stitching back together much of the old AT&T monopoly that the government broke up last decade. SBC disagrees.

"This isn't like putting the Bell system back together," said Edward Whitacre Jr., SBC's chairman and CEO, in a conference call with reporters Monday. "That was a national monopoly. This merger talks about 12 states, not 50, and there is no long-distance (service) involved."

Chicago-based Ameritech is the dominant local carrier in Illinois, Indiana, Michigan, Ohio and Wisconsin. SBC operates in seven Western states, including California and Texas. Buying Southern New England Telecom would give SBC a foothold on the East Coast.

Since the Telecommunications Reform Act was passed, the Bells haven't directly battled one another. Whitacre says this will change if the Ameritech purchase is OK'd. He says SBC has identified 30 local markets where it plans to compete for local and business customers.

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(Publication page references are not available for this document.)

But SBC isn't looking at local competition as its main growth path, says Gary Miller, president of Aragon Consulting Group in St. Louis. He says SBC is laying the groundwork to compete in long-distance services and globally.

"If you're going to be a global player, you need scale and customer bases at the local level," Miller said.

The merged company would operate in 19 countries. Ameritech has expanded aggressively in Europe over the last year. SBC invested $1 billion overseas in '97.

By expanding through mergers, SBC is positioning itself to bundle services such as long-distance, Internet access and cellular to its local phone service customers, say analysts.

"SBC's strategy is that the local phone connection - the last mile and the local phone customer - is where the value is," said Reingold at Merrill Lynch.

Analysts expect two other Bells - US West Communications Group and BellSouth Corp. - to explore mergers as well.

The proposed SBC-Ameritech deal is larger than WorldCom Inc.'s pending $37 billion acquisition of MCI Communications Corp.

It also would surpass the $25.6 billion Bell Atlantic-Nynex merger. After that deal, the FCC said it would take a harder stance in reviewing any future Bell mergers.

Analysts say SBC might be asked to make concessions - as did Bell Atlantic - to push the Ameritech deal through. But SBC has aggressively fought the FCC in court.

In December, U.S. District Court Judge Joe Kendall in Texas ruled in SBC's favor. His ruling, overturning a key part of the telecom act, would open the door for SBC to offer long-distance service. The Supreme Court is expected to review the case.

"The asteroid factor is whether the restrictions on the Bells in the telecom act are unconstitutional," said Scott Cleland, an analyst at Legg Mason Wood Walker Inc. in Washington. He thinks Judge Kendall's ruling will be upheld.

Such a ruling, along with an SBC-Ameritech merger, would mean trouble for the largest telecom company in the U.S.

"The individual who comes out of this with the biggest headache is

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(Publication page references are not available for this document.)

(AT&T Chairman) Michael Armstrong," Kagan said. "They need to start pooling their resources the way the Bells have."

---- INDEX REFERENCES ----

COMPANY (TICKER): SBC Communications Inc.; Ameritech Corp.; AT&T Corp.; Bell Atlantic Corp. (SBC AIT T BEL)

NEWS SUBJECT: World Equity Index; High-Yield Issuers (WEI HIY)

INDUSTRY: Long Distance Telephone Providers; Telephone Systems; Telecommunications, All; Regional Telephone Systems (LDS TLS TEL RTL)

Word Count: 938
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The Wall Street Journal
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Tuesday, May 12, 1998

Telecommunications: Bell Merger Bedevils Local-Service Rivals

By Stephanie N. Mehta
Staff Reporter of The Wall Street Journal

One of the hardest sales jobs in the U.S. just got harder.

The work entails pitching alternative local telephone service for an upstart competitor of the mighty Baby Bell monopolies. The new wrinkle is the planned acquisition by SBC Communications Inc. of Ameritech Corp., combining two Bells into a new monolith.

Tom Von Der Linn knows all this first hand. Mr. Von Der Linn, 42 years old, is a sales representative for USN Communications Inc., a Chicago-based company that operates in Ameritech and Bell Atlantic Corp. territory. Often rebuffed as he drives his Pathfinder around New York's Long Island making cold calls on small businesses, he illustrates the fact that regulatory action to free up markets and promote new competition doesn't mean customers are eager to sign up with a newcomer.

Since Congress deregulated the telecommunications industry two years ago, USN and more than a dozen "competitive local exchange carriers" have emerged to grab customers, mostly businesses, from the Baby Bells and GTE Corp. These CLECs (called C-leks by industry insiders) hope to succeed in much the same way that scrappy MCI Communications Corp. took market share from AT&T Corp. in the 1980s.

The upstarts have become the darlings of Wall Street, raising more than $15 billion in two years. One company, Teligent Inc., has achieved a market capitalization of $1.55 billion -- without signing up a single customer.

To hear some of the upstarts tell it, competing in a land of ever-bigger telecom giants is nothing to fear. USN is tiny, with fewer than 250,000 phone lines that it leases from the local phone companies to resell to clients. But it sees itself as one of the fastest-growing competitive carriers with the advantage of timing -- it is already in the market. "Woe to those who enter late," says Ronald W. Gavillet, an executive vice president at USN's headquarters in Chicago, which is also the home base of Ameritech.

Main Street has been less enamored. At the end of last year, CLECs controlled less than 1% of the 178 million local telephone lines in the U.S. Many of the new carriers are reporting triple-digit revenue increases annually, but a good part of that growth comes from sales of long-distance calling and Internet access rather than local service. Almost none of the newcomers are profitable.

Mr. Von Der Linn's experiences show why it is so hard for new competitors to do any real damage to the Bell monopolies. Calling on customers on Long Island, the hard-working salesman puts in long hours over long distances but spends lots of time trying to address a range of simple concerns. Many small-business owners believe, erroneously, that it is illegal to buy local service from another provider. Some have been "slammed" by long-distance carriers so frequently that they are suspicious of anyone -- especially little-known carriers like USN -- offering to switch their phone services.

Still others simply can't be bothered to listen to Mr. Von Der Linn's pitch. "During the course of the day you will see people who are very negative, who can't hear you," says Mr. Von Der Linn, a former deli owner and copier-supply salesman. "Tough darts. They won't reap the benefits of the Telecom Act."

The Telecommunications Act of 1996 requires the Bells to open their local networks to competitors such as USN, which actually resells Bell service, in order to win entry into the lucrative long-distance market. So far, though, regulators and watchdog groups maintain that local markets still are substantially closed to competitors.

Some upstarts agree. The newcomers say the Bells process requests only slowly, frequently "misplace" orders to switch customers to CLECs and charge

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EXHIBIT
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outrageous fees to let the start-ups set up their equipment in the Bells' offices. Meanwhile, many of the new carriers are just starting to construct their networks. James Henry, an analyst at Bear Stearns & Co., estimates that new competitors' networks reach only about 5% of the businesses in the U.S.; rival lines into homes are even rarer.

Meanwhile, telecom giants such as WorldCom Inc. and AT&T are targeting the biggest corporate customers with a package of local, long-distance and data services. "It's a very difficult, door-to-door business," says Mr. Henry of Bear Stearns. "You have to fight tooth and nail to win every customer."

USN's Mr. Von Der Linn knows that all too well. On a recent morning, he tried to convince entrepreneur Dominic Kelly that USN could cut Mr. Kelly's monthly telephone bill by a third. But Mr. Kelly was concerned about reliability. "I think we get pretty good service with Bell Atlantic," he said, pursing his lips in doubt.

Later in the morning, Scott Lobel, an insurance agent, signed with USN, but not without misgivings. "I won't tolerate my communications service being down," he warned Mr. Von Der Linn.

Some industry observers believe the newcomers may be a bit before their time in selling to small-business clients. "I'm not sure customers are fully prepared yet to embrace these new entrants to the degree that was initially expected," says Blake Bath, an analyst with Lehman Brothers. He predicts that competitors may steal a moderate 5% of the Bells' share of business customers in the next 18 months.

However, a big merger such as the one SBC is pursuing with Ameritech could distract the major carriers and create an opportunity for small rivals to lure away their best business customers.

Meantime, wooing Bell customers "is every bit as hard as we thought it would be," says James Voelker, president of Nextlink Communications Inc., a Bellevue, Wash., start-up carrier that operates about 72,000 access lines. "But it is doable."

USN's Mr. Von Der Linn agrees. And even after a day of cold-calling in the field ends with only two new customers who have a dozen telephone lines between them, he isn't discouraged. "If you're an aggressive salesman," he says, "you bang on the door."

Battling the Phone Giants

A look at the five largest independent competitive local carriers:

CARRIERS	HEADQUARTERS	TELEPHONE LINES
Teleport Communications Group Inc.*	Staten Island, N.Y.	325,874
USN Communications Inc.	Chicago	226,084
McLeodUSA	Cedar Rapids, Iowa	223,200
Intermedia Communications Inc.	Tampa, Fla.	220,587
ICG Communications Inc.	Englewood, Colo.	168,156

* Agreed to sell to AT&T Corp.
Source: Bear Stearns & Co.

---- INDEX REFERENCES ----

COMPANY (TICKER): USN Communications Inc. (USNC)

NEWS SUBJECT: Newspapers' Section Fronts; Small Business, Entrepreneurs; Wall Street Journal (FRT SML WSJ)

MARKET SECTOR: Utilities (UTI)

INDUSTRY: Regional Telephone Systems; Telecommunications, All; Telephone Systems (RTL TEL TLS)

PRODUCT: Telecommunications (DTE)

REGION: Illinois; North America; United States; Central U.S. (IL NME US USC)

LAYOUT CODES: Second Front Umbrella (SFR)

Word Count: 1056

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Chicago Tribune

Business

THURSDAY, MAY 14, 1998

Ameritech to offer long-distance

Deal with Denver's Qwest will likely draw fire

By Jon Van
TRIBUNE STAFF WRITER

Ameritech Corp. will begin marketing discount long-distance service to its customers in a deal with Denver-based Qwest Communications Inc. that will be announced Thursday.

The alliance is similar to one announced last week between Qwest and U S West, the Denver-based Baby Bell, which AT&T Corp., MCI Communications Corp. and other long-distance carriers are suing to stop.

An industry source close to negotiations said that Ameritech's residential customers will be offered a flat rate of 7 cents a minute to call anywhere in the country after 7 p.m. and on weekends, with a 15-cent flat rate for weekday calls.

Business customers will be offered a flat rate of 9.5 cents a minute for daytime calls.

Long frustrated at failing to get government approval to offer its customers long-distance directly, Ameritech executives have elected to team up with the small but aggressive Qwest to provide "one-stop shopping" for phone services that many customers say they want.

People can call Ameritech to order the long-distance deal, which will be packaged with their local service and included in a single bill. Because Ameritech will get no revenue from the long-distance business, its lawyers believe the marketing partnership is legal.

A similar deal between Qwest and U S West met a firestorm of criticism from AT&T, MCI and four other long-distance firms who contend it isn't legal. They took their case to federal district court in Seattle Wednesday, charging the alliance violates the Telecommunications Act's restriction against a local telephone company providing long-distance service until its local market is deemed adequately open to competition.

The suit also says Qwest and U S West are violating federal

SEE AMERITECH, PAGE 4

Ameritech

CONTINUED FROM PAGE 1

regulations prohibiting a Bell company from discriminating in favor of one long distance carrier over another.

Joining AT&T and MCI are the Association for Local Telecommunications Services, McLeodUSA Telecommunications, ICG Communications and GST Telecom.

Officials at Qwest and U S West denied the charges. "Our new program meets both the spirit and the letter of the Telecommunications Act," said Solomon Trujillo, president and CEO of U S West Communications.

Jeffrey Kagan, an Atlanta-based telecommunications consultant, said that the issues raised in the suit are far from clear cut.

"It's really a gray area," he said. "Both sides sincerely think that they are right, and whoever wins really comes down to which judge rules on it and how that judge interprets the law."

Ameritech's decision to go ahead with the Qwest deal only a few days after agreeing to be merged into SBC Communications Inc. based in San Antonio underscores the firm's determination to continue business as an aggressive competitor during the year or more it will take for regulatory review of the merger.

While the Qwest deal won't directly add to Ameritech's bottom line, some analysts see it as a smart marketing move because it helps the company lock up customers while it has virtually 100 percent of the market, so they will be more difficult for AT&T, MCI and others to steal away later, if and when the competitors win entry into local markets.

"This is a great way for Ameritech to build relationships with its customers," said Andrew Lubetkin, a telecommunications consultant based in Winnetka. "It will give them marketing data they don't have now that will help them target customers for more service that will build revenue.

"I think this is a first step, and as they sign up long-distance customers, they'll look for alternatives that will generate revenue."

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The Wall Street Journal
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Tuesday, May 12, 1998

Pressure Mounts for Phone Companies to Find a Partner

By John J. Keller
Staff Reporter of The Wall Street Journal

GTE Corp., Sprint Corp. and other phone giants might argue that they can go it alone in this acquisition-crazy telecom age, but sooner or later each may have to become a part of something much bigger.

Phone monopolies are marrying other monopolies, mutating into bigger and bigger telecommunications monoliths. There simply is no way a smaller carrier, however profitable, could withstand the marketing and service pounding from a company the likes of which is being formed by SBC Communications Inc. Chairman Edward E. Whitacre Jr.

The field of potential partners keeps getting smaller. The seven original Bells will be four if SBC pulls off its deal to acquire Ameritech Corp. AT&T Corp. is starting to make its multibillion-dollar acquisitions. WorldCom Inc. is about to gulp down bigger MCI Communications Corp. Smaller fry are also marrying.

Privately, executives at these companies were stunned by SBC's audacious move yesterday to extend its control of local phone lines all the way from the West Coast to the Midwest. Just the year before, SBC took control of Pacific Telesis Group's lines in California and Nevada. And SBC's move concided with Bell Atlantic Corp.'s purchase of Nynex Corp., which gave Bell Atlantic command of the northeastern and mid-Atlantic U.S.

"When you look at SBC and what Bell Atlantic has put together, if there was even a tacit understanding between these two big Bells to cooperate or lay off one another, it could seriously hamper our ability to compete in their territories," said Sprint Chairman William T. Esrey. The Bells have countered that their combinations have enhanced their abilities to fund forays into new markets.

If Mr. Whitacre manages to take over Ameritech, his San Antonio-based SBC would have much of the local-phone properties of GTE, U S West Communications Inc. and Sprint surrounded. Then, with its brand-name clout and tremendous cash flow, generated by more than a third of all the phone lines in America, SBC could selectively pick off its targets' most profitable markets.

Such is the power of scale in the current war to capture control over one of the world's valuable resources: the local phone line.

Mr. Whitacre and his bankers know full well the value of these deceptively simple-looking little wires attached to homes and businesses. While there may be hundreds of millions of phone lines in the world, each is extremely expensive to duplicate. SBC's rivals haven't captured more than 2% of its local market -- some after being in the business for more than a decade. One of Mr. Whitacre's key strategies is to buy as many of these "access lines" as SBC can get before AT&T and others can buy or reproduce them. With these lines he will do a lot more than carry calls on Mothers Day. He will sell a package of services, including local, long-distance and high-volume Internet-access to his customers.

In fact, this may have been Mr. Whitacre's primary strategy all along. Long distance is a profitable niche, and SBC executives have said the company plans to do well there, possibly capturing a third of the $22 billion market in the Bell's regions after an Ameritech merger. But it can ensure greater success by nailing down local connections to customers, which would make it harder for SBC rivals to attack its local businesss.

The long-distance carriers such as AT&T are vulnerable without local connections and are paying handsomely to get them. AT&T agreed recently to pay $11.4 billion for Teleport Communications Group Inc., a local competitive carrier that has little more than a half billion dollars in revenue. Similarly, long-distance player WorldCom paid $12.4 billion for MFS Communications Corp., which was similar in size to Teleport. And neither of these competitive local companies has more than a couple of hundred thousand lines, compared with

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the 175 million in the U.S.

Mr. Whitacre may try to move quickly to connect the lines he hopes to get from Ameritech by buying long-distance and data assets. He will need permission to enter the long-distance business first, but if he gets it he could turn around and try to rope AT&T or some other long-distance player that catches his fancy.

Maybe it won't be AT&T. Maybe Sprint would fit the bill better. Based in Kansas City, Sprint would fit hand-in-glove with Ameritech, and Sprint has powerful local assets that would fill out SBC's midwestern and western territory, give it Florida assets with which to attack BellSouth and a major local-phone and wireless presence in booming Las Vegas.

Or perhaps Mr. Whitacre will invest finally in the industry's true competitors, such as Qwest Communications International Inc., IXC Communnications Corp., Level 3 Communications or smaller local carriers. Each is building high-capacity fiber-optic networks to challenge incumbent carriers.

So how to get bigger before SBC gets there first? It is a sure bet AT&T Chairman C. Michael Armstrong isn't going to sit still while Mr. Whitacre sews up much of the U.S. Look for AT&T's chief to expand his local, Internet and international assets before the end of the summer. He could expand in local by combining with GTE or BellSouth or investing in a slew of smaller players and franchising some of these companies to carry AT&T traffic to homes and businesses, thus bypassing the Bells. Internationally, Mr. Armstrong could find a way of combining with Cable & Wireless PLC or British Telecommunications PLC to find a better gateway into Europe. Anyone who thinks Mr. Armstrong won't act decisively should take a look at IBM Europe, which he built before moving on to Hughes Electronics Inc., a unit of General Motors Corp. and challenging the cable-television industry with the DirecTV satellite service.

There could be several other combinations. GTE could combine with Sprint to form a local/long-distance/data giant. GTE argues that its value isn't only in the 22 million access lines it has in well-heeled suburban and rural markets. It recently purchased BBN Corp., giving it "one of the biggest concentrations of Internet Protocol engineers in the world," a spokesman noted. Having such Internet expertise would seem to be a tremendous asset in a telecom world that is quickly being overtaken by data services.

Or Sprint could go with a Bell. So far SBC has shown little or no interest in the Westwood, Kan., long-distance and local player, according to people familiar with Sprint's discussions with other carriers. But that could be because Mr. Whitacre is frying bigger fish right now. Sprint won't comment on its talks with potential partners.

Bell Atlantic might be interested in Sprint once it gets clearance to enter the long-distance business. But any potential buyer of Sprint had better be ready to pony up a major-league premium. Mr. Esrey, Sprint's CEO, has said that his stock is grossly undervalued based on just the performance of its core long-distance and local phone businesses.

Big Deal Contenders

COMPANY	REVENUE (in billions)
AT&T	$51.32
ASSETS: Holds telecom's most powerful brand name, biggest long-distance and wireless carrier and has agreed to buy sizable local player Teleport Communications Group Inc. But it needs more in data, local and international services	
Bell Atlantic*	30.19
ASSETS: Local phone network stretching from Maine to Virginia. Huge wireless business. Sizable player in Europe. Needs long-distance and a larger international play.	
GTE	23.26
ASSETS: Local phone business with 22 million access lines, giant wireless network, startup long-distance service and a powerful data business after acquiring BBN Corp. Needs larger long-distance,	

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Internet play. Could also strike an international deal soon.
BellSouth 20.56
ASSETS: "Largest local phone company in the Southeast in markets such as Atlanta and Miami, gateway to the Caribbean and Latin America. Also sizable wireless and international businesses" Needs to get bigger against encroaching Bell Atlantic from the North and SBC to its west. Also seeks a long-distance play so that it can package services to customers.
Sprint 14.87
ASSETS: Pacesetter, pushed telecom industry into the fiber-optics revolution. No. 3 long-distance carrier, large local phone business with 7.4 million lines, and it is building a nationwide wireless network that so far is hurting profits. Determined to go alone but may become part of something bigger, but merger partner would have to pay a huge premium.
U S West 10.32
ASSETS: Nationwide wireless network that so far is hurting profits. Determined to go alone but may become part of something bigger, but merger partner would have to pay a huge premium.
Note: All revenue and net income figures are for full-year 1997.
*Bell Atlantic took over Nynex Corp. in a $25.6 billion deal in 1997.

---- INDEX REFERENCES ----

COMPANY (TICKER): Ameritech Corp.; Bell Atlantic Corp.; BellSouth Corp.; British Telecommunications PLC; Cable & Wireless PLC; Sprint Corp.; GTE Corp.; IXC Communications Inc.; LVLT; MCI Communications Corp.; Qwest Communications International Inc.; SBC Communications Inc.; AT&T Corp.; Teleport Communications Group Inc.; British Telecommunications PLC; Cable & Wireless PLC; WorldCom Inc.; Anschutz Co. (AIT BEL BLS BTY CWP FON GTE IIXC LVLT MCIC QWST SBC T TCGI U.BT U.CW WCOM X.ANZ)

NEWS SUBJECT: High-Yield Issuers; Industry Overview; Management Issues; Acquisitions, Mergers & Takeovers; World Equity Index; Wall Street Journal (HIY IOV MNT TNM WEI WSJ)

MARKET SECTOR: Utilities (UTI)

INDUSTRY: Long Distance Telephone Providers; Regional Telephone Systems; Telecommunications, All; Telephone Systems (LDS RTL TEL TLS)

PRODUCT: Telecommunications (DTE)

REGION: Colorado; Connecticut; District of Columbia; Europe; Georgia; Illinois; Kansas; Mississippi; North America; New York; Pennsylvania; Texas; United Kingdom; United States; Central U.S.; Eastern U.S.; Southern U.S.; Western U.S.; Western Europe (CO CT DC EU GA IL KS MS NME NY PA TX UK US USC USE USS USW WEU)

LAYOUT CODES: Large Majors; Business and Finance Column Stories (LMJ TPT)

Word Count: 1440

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$62 BILLION DEAL TO SHIFT BALANCE IN PHONE INDUSTRY

THIRD OF MARKET AT STAKE

Deal for Ameritech Continues Reversal of 1984 Breakup From 7 Baby Bells to 4

By SETH SCHIESEL

The announcement that SBC Communications Inc. would acquire the Ameritech Corporation for about $62 billion significantly shifts the balance of power in the United States telecommunications industry. The deal announced yesterday would create the nation's largest local phone company and threaten the remaining regional Bells with the specter of having to compete eventually with a wealthy, aggressive leviathan that will control about a third of the nation's local phone lines.

Forged by an executive determined to create a phone empire with a breadth unmatched since the Federal Government broke up the AT&T Corporation in 1984, the new SBC would dominate local phone markets in a swath through the middle of the nation from Detroit to El Paso, as well as in California and Connecticut. With more than $40 billion in sales, it would be the nation's No. 2 carrier, behind the AT&T Corporation.

Most analysts predicted that yesterday's announcement, driven by the search for savings and financial power, would add fuel to the already screaming engine of mergers in the communications industry.

Such rapid concentration of the industry through mergers and acquisitions has left some regulators and consumer advocates uneasy about the potential for new monopolies. [Page C1.]

If the deal wins approval from state and Federal regulators, AT&T and the nation's other large phone companies will find themselves defending their turf from a company that controls almost 55 million local phone lines and has demonstrated an enormous appetite for growth and acquisition.

SBC's chairman, Edward E. Whitacre Jr., said yesterday that the new company would aggressively seek to move into the markets of other Bells. SBC named New York City, now served by the Bell Atlantic Corporation, as its prime target, and said that Albany was also on the list.

While the Telecommunications Act of 1996 was enacted to encourage just such moves, consolidation has

Continued on Page C10

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TELEPHONE GIANT: Putting Back the Bell System

THE DEAL

2d-Biggest Company in the Phone Industry

Continued From Page A1

seemed a higher priority than competition.

If the SBC-Ameritech deal goes through, Bell Atlantic, which acquired the Nynex Corporation for $25.6 billion last year, will find itself in second place among local phone carriers, with about 41 million lines.

Some analysts contend that consolidation is necessary for survival in today's telecommunications industry.

"It's going to force everyone to reconsider, again, what they considered the playing field," Frank Governali, head telecommunications analyst for Credit Suisse First Boston, said of the SBC-Ameritech deal. Local phone companies, he said, "that have the view that they can be independent or just focus on their regional area don't get it."

"You have to be able to compete nationally," Mr. Governali said.

The main way for AT&T, Bell Atlantic and the other big phone companies to respond to the threat quickly would be to pursue huge deals of their own.

In 1984, AT&T was split into eight parts: the long-distance carrier that retained the company's name and the seven local telephone companies that quickly became known as the Baby Bells. But since passage of the 1996 act — an attempt at a complete overhaul of the telecommunications laws that Congress hoped would unleash competition in every sector of the communications industry — the Bells have been trying to restore and strengthen their family bonds.

In addition to the Bell Atlantic-Nynex deal, SBC acquired the Pacific Telesis Group for $16.7 billion last year. After an SBC-Ameritech merger, the seven Bells would be four.

Such a situation would give added urgency to the question that has haunted telecommunications policy makers for two years: Is the act working?

"The '96 act was about competition and deregulation," William E. Kennard, the Federal Communications Commission's chairman, said in an interview. "It was not about consolidation and deregulation."

Predictably, the strongest corporate comments denouncing the deal yesterday came from AT&T.

The merger "delivers no consumer benefits," AT&T said in a statement. "State public service commissions, the F.C.C. and the Department of Justice shouldn't even think about allowing this latest deal to go through until, at the very least, SBC and Ameritech have proven that consumers in their states have a real choice in local service."

The other three Bells issued tepid statements yesterday saying that they remained focused on their own business.

Each time Bells merge, the competitive threat to AT&T grows. AT&T's main competitors today are other long-distance companies like the MCI Communications Corporation and Worldcom Inc. (which have agreed to merge). But the Bells crave the chance to enter the $80 billion long-distance market themselves and eviscerate AT&T's customer base. While no Bell has yet won approval from Federal regulators to sell long-distance service, few people believe the local phone companies will be kept out of the long-distance arena forever.

But it has not been just the Bells who have propelled the tidal wave of consolidation in the telecommunications industry. Constantly seeking to bulk up financially and bidding to offer every sort of communications service in one integrated package, telecommunications carriers of all description have been calling on Wall Street bankers to serve as matchmakers.

AT&T, in fact, pursued its own merger negotiations with SBC last summer, before the talks fell apart amid public sniping, disputes over who would run the new company and thunderous denunciations from regulators.

"This demonstrates the failure of deregulatory telecommunications policy and weak or lax antitrust oversight," said Gene Kimmelman, co-director of the Washington office of Consumers Union, a consumer advocacy group, referring to the rapid pace of recent deal making. "I see three or four companies coming out of this as being dominant for both local and long distance in their regions.

"We've got a pattern here of local monopolies combining with other local monopolies adjacent to them, giving them built-in networks for one-stop shopping that will allow them to function in the same way fortress hubs work in the airline industry, with tremendous advantages over any potential competitor."

An acquisition of Ameritech by SBC would be the largest merger in telecommunications history, outstripping Worldcom's pending $37 billion acquisition of MCI.

It would also dwarf Daimler-Benz's proposed $39 billion takeover of the Chrysler Corporation, which was announced last week. In corporate merger history, it would be second in size only to the $70 billion deal announced in March between Citicorp and Travelers Group.

Despite all the fears of consolidation — or more likely because of them — the top executives of Ameritech and SBC held out their deal yesterday as a boon for competition. Mr. Whitacre, the architect of SBC's aggressive strategy, said the combined company would invade the territory of other big local phone companies. SBC said it had its sights on 30 major markets where it would build new local phone networks. No. 1

At a Glance

Here is a look at the companies involved in the latest planned telecommunications merger.

	SBC	Ameritech
HEADQUARTERS	San Antonio	Chicago
CHAIRMAN	Edward E. Whitacre Jr.	Richard C. Notebaert
EMPLOYEES	118,340	74,359
1997 NET INCOME	$1.5 billion	$2.3 billion
YESTERDAY'S STOCK	$38.81, down $3.56	$46, up $2.12
PHONE LINES	34 million	20.8 million

1997 REVENUE BREAKDOWN

	SBC	Ameritech
LOCAL SERVICES	$12.6 billion	$6.4 billion
NETWORK ACCESS	5.8	3.1
LONG DISTANCE	2.1	1.4
OTHER	4.3	5.1
TOTAL	24.8	16

Sources: Company reports; Bloomberg Financial Markets

The New York Times

on the list was New York City; No. 30 was the Albany area.

For the last few years many large businesses have had a choice of local telephone companies. New carriers find it profitable to dig up streets and build new networks when the prize is a big office building with hundreds or thousands of phone lines.

But most residential consumers have had only one choice: the same local phone company they had before the telecommunications act was passed.

"We're going to put an end to this conversation that no competition is developing in the residential market," Mr. Whitacre said in an interview yesterday. "We're promising to develop that competition."

Mr. Whitacre would not, however, say just how much his company was prepared to spend to compete in other Bells' markets.

All this could leave regulators in a bind.

Reed E. Hundt, who resigned from the chairman's job at the F.C.C. last fall, said that Mr. Whitacre "is asking the Government the following question: How many telephone companies is the smallest number you can accept?"

But Mr. Whitacre may also be asking a different question: Do you believe me?

When Bell Atlantic and Nynex were lobbying for approval of their merger, they said the deal would give them the financial muscle to invade the territories of other Bells. But Bell Atlantic has not done so to any significant degree, leading to chagrin in some quarters of the F.C.C. Now SBC is making the same argument.

Mr. Kimmelman of Consumers Union remains unconvinced.

"They keep saying what they will do somewhere else," he said. "We're at a point now where that becomes totally unrealistic to rely on, because they want you to focus on the other parts of the country where they don't exist but not on the areas where they become superdominant."

The F.C.C., however, approved the mergers of Bell Atlantic and Nynex and of SBC and Pacific Telesis. The commission's chairman then was Mr. Hundt, who was not known as a friend of the Bells.

A debate whether consolidation on such a scale is in fact necessary to survive.

The Justice Department also declined to challenge those deals, in part because it could not see an antitrust problem in the merger of two companies that never substantially competed with each other in the first place.

On its face, a merger of SBC and Ameritech does not seem much different in its regulatory implications from the previous two Bell mergers.

Mr. Kennard said yesterday that SBC would have to convince him that its acquisition of Ameritech would serve the cause of competition, but he has also forged a reputation of being more conciliatory toward the Bells than was Mr. Hundt.

In addition to the F.C.C. and the Justice Department, the deal will also face review by regulators in the five states of Ameritech's region: Illinois, Indiana, Michigan, Ohio and Wisconsin. The companies expect to win approval of their merger around the middle of next year.

Under the terms of the deal, Ameritech's stockholders would receive 1.316 share of SBC stock for each Ameritech share. SBC's shares closed on Friday, before news of the deal emerged, at $42.375. That would make the deal worth $55.77 for each Ameritech share, about 27.1 percent higher than the closing price of $43.875. for Ameritech's shares on Friday SBC would also assume Ameritech's debt of about $9.2 billion.

On the New York Stock Exchange, Ameritech's shares rose $2.125, to $46, while shares of SBC fell $3.5625, to $38.8125, on fears that SBC may have paid too much.

Richard C. Notebaert, the chairman of Ameritech, said he would remain with the combined company until the deal was completed. But Mr. Whitacre and his team will have firm control of the new company.

The companies said there would be no layoffs because of the merger, and SBC said the deal would harm its earnings for the first two years after it is completed but would increase profits after that.

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Alarm Bells: Is This Really What Congress Had in Mind With the Telecom Act?

SBC-Ameritech Deal Sparks Debate Over Big Mergers Fostered by Deregulation

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'Nobody's Got a Clear Vision'

By Wall Street Journal staff reporters Bryan Gruley, John Simons and John R. Wilke

WASHINGTON -- What price competition? With a slew of mergers in the telecommunications industry, finding an answer is suddenly urgent.

Two years ago, the federal government enacted a law designed to crack local telephone monopolies and bring consumers the benefits of competition. By sweeping away decades of regulation, Washington thought it was paving the way for a free-for-all among the Baby Bells, long-distance carriers, cable operators and other telecommunications providers.

Instead, the urge to merge has overwhelmed the compulsion to compete. Most people are still waiting for lower phone rates and better service, while the nation's telephone giants seem intent on vying to see which one can become the biggest the fastest. Lawmakers and regulators have largely stood by and watched the procession of megadeals, hoping that the emergent landscape would eventually give rise to competition.

But with yesterday's news of SBC Communications Inc.'s $56.18 billion bid to buy Ameritech Corp., frustrated lawmakers and regulators are debating where to draw the line.

In a statement yesterday, William Kennard, chairman of the Federal Communications Commission, issued a challenge to the two companies: "The bottom-line question is: Is this merger going to create competition, or will it be a nonaggression pact? The Telecom Act was all about opening markets for competition. SBC and Ameritech must show us that this merger will serve the public interest and enhance competition."

The merger must be reviewed by state regulators, antitrust enforcers at the Justice Department and the five politically appointed members of the FCC. The entire process probably will take a year or longer. Both federal agencies will be influenced by the views of Congress, where many authors of the Telecommunications Act of 1996 still reside, and by the White House, where Vice President Al Gore was a key supporter of the law.

The political reaction is crucial, and not just to SBC and Ameritech. If the merger is flatly rejected, it sends the message that the Baby Bells' forays into other businesses -- especially the lucrative long-distance market -- won't be tolerated until and unless they open their local markets to competition. If this merger is approved without significant conditions, it not only would give a green light to other telecom companies contemplating mergers; it would force them to slam their foot on the accelerator lest they be left in the dust.

"How many big phone companies does the government want in America?" asks Reed Hundt, the former FCC chairman who last year helped end SBC's plan to acquire AT&T Corp. by calling such a combination "unthinkable." Now, he says, "industry's going to ask this question of government until it gets an answer. And if you don't give an answer, you basically force merger mania, because what do you expect other CEOs to do, sit on their hands?"

In Washington, critics are focusing on what they see as the frightful prospect that consolidation will reassemble the Ma Bell monopoly splintered by the Justice Department 14 years ago. "This is an inexorable backslide, resulting from excessive deregulation and weak antitrust oversight," says Gene Kimmelman, co-director of the Washington office of Consumers Union.

John McCain, the Arizona Republican who chairs the Senate Commerce Committee, says the merger is more evidence that the 1996 law has failed. Mr. McCain voted against the law because he considered it too regulatory. "Companies consolidate when they

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EXHIBIT
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can't compete, and consolidation without competition can hurt consumers," he says. He repeated his call for an overhaul of the law, but few people think Congress can act quickly enough to affect the SBC-Ameritech deal.

SBC and Ameritech say they expect the merger to win regulatory approval because it would increase competition for local, long-distance, Internet and high-speed data services across the combined companies' vast geographic market. "This merger is critical because it transforms us into a company that has the size, scope and incentive to make the promise of the act a reality," Richard Notebaert, chairman and chief executive of Chicago-based Ameritech, said yesterday. Edward Whitacre Jr., chairman and chief executive of San Antonio-based SBC, said regulators should find the merger "welcome" if they are "looking for a truly potent way to jump-start competition."

In reviewing mergers, the Justice Department must consider whether the combination would significantly reduce competition. That is nearly impossible to show in local phone markets, where there has been no competition to speak of for decades. But enforcers could try to argue that SBC and Ameritech would compete in each others' markets if they remained independent. For instance, Ameritech had planned to launch phone service in St. Louis this year, where it would have vied head-to-head with SBC. The merger would eliminate that rivalry.

Such "potential competition" arguments rarely prevail in court, though, because they are highly speculative. Joel Klein, the Justice Department's lead antitrust enforcer, decided he couldn't make a similar case last year against Bell Atlantic Corp.'s $23 billion acquisition of Nynex Corp., despite plans by both companies to compete in New York City. Mr. Klein's failure to bring a case against the merger incited some critics in Congress who delayed his confirmation as assistant attorney general for antitrust.

To make a "potential competition" argument stick against SBC and Ameritech, Mr. Klein's investigators would seek internal company documents showing that the two firms had planned to compete. Even those documents might not persuade a court to stop the merger if the companies could show that the combination would bring efficiencies that would lead to lower prices for consumers.

The companies yesterday acknowledged that they may have to sell off some overlapping businesses. One key candidate is SBC's lucrative cellular-phone business in Chicago, which competes with Ameritech. Ameritech is in the same position against SBC in St. Louis.

The FCC has more leeway to block the merger because it is charged with determining whether the deal meets the "public interest." The agency has never blocked a deal nearly this big, but under Mr. Hundt, it did impose conditions designed to force the merged Bell Atlantic-Nynex to open its local markets to competitors. Some experts think those conditions might not prove acceptable to SBC-Ameritech.

"The burden is on them," FCC Chairman Kennard says. "Any company that comes to us has to be able to show that it will create competition."

The distinct character of the two companies also could influence Washington's review. Ameritech is widely seen as the most cooperative Baby Bell in trying to comply with the law's requirements that local phone companies allow rivals into their markets. But the combined company would be run by managers from SBC, which is viewed by many in Washington as too vigilant a protector of its markets. The company last year sued to overturn key portions of the '96 law, arguing that they are unconstitutional.

"SBC has been aggressive in slowing the implementation of the Act," says Heather Gold, president of the Association for Local Telecom Service, a lobbying group for companies that offer competitive local phone service, chiefly to business customers.

State public-utility commissions also will want a piece of this deal and could delay approval beyond the federal antitrust and FCC reviews. They are likely to press for their own conditions, just as they did with Bell Atlantic's buyout of Nynex, in which states demanded greater opening of their local markets to competition. Yesterday, state antitrust regulators said they are eager to review the deal.

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The law has spurred some competition. Business customers in major cities have more choices for local phone service. Price wars for wireless phone service and equipment have erupted in many places. A spirited battle for delivering high- speed Internet access is shaping up between cable-television and phone companies. Ameritech has made an aggressive push into cable TV, forcing prices down and boosting services in a handful of markets.

But the landscape looks nothing like the one envisioned when President Clinton signed the telecom bill into law on Feb. 8, 1996. Most residential customers still have but one choice of local phone provider. The Baby Bells have yet to enter the long-distance business. Cable-TV companies quickly lost interest in entering the phone business, preferring to invest in upgrading their networks so they could begin offering high-speed Internet access.

The move to deregulate gained momentum in the early 1990s as the seven Baby Bells pushed Congress to allow them to enter the long-distance business. The Bells had been barred from the business since the breakup of AT&T. But after years of intense lobbying, lawmakers struck a compromise: The Bells would be allowed to offer long-distance service, but only after opening their local markets to competition. Congress gave the FCC the job of judging whether the Bells had sufficiently opened their markets.

Congress also left it to the FCC to settle thousands of tiny but vital questions that had huge implications for the incumbent Bells and their rivals. For example, how much of a discount should a Bell give a rival to use the Bell's network? Soon after the FCC tried to answer many of those questions in a 700-page order released in August 1996, several Baby Bells -- including SBC and Ameritech -- sued to have the order nullified. The lower courts sided with the Bells, and the Supreme Court is expected to hear the case this fall, with a decision likely in early 1999.

Since then, dozens of state and federal lawsuits have been filed by all manner of phone providers, tangling the companies in litigious knots that, at the very least, slow their competitive efforts. The Bells in particular have been criticized for the litigation, but the companies say they are obliged to protect their decades-old investments in the phone network.

Without clear rules for plugging into those local markets, competitors balked. That was a mixed blessing for the Bells, because they needed to show the FCC evidence of local competition to gain permission to enter the long- distance business. The commission has rejected applications by Ameritech to offer long-distance service in Michigan, by SBC in Oklahoma, and by BellSouth Corp. in South Carolina and Louisiana. Soon after the SBC rebuff, the company sued to overturn the long-distance provision of the 1996 law. A federal judge in Wichita Falls, Texas, agreed that the provision is unconstitutional, but the ruling is on appeal.

Some lawmakers now fault the FCC for not finding faster ways to foster competition. "What's happening [with mergers] is in lieu of long-distance competition," says Rep. Billy Tauzin, the Louisiana Republican who chairs a House telecom panel. If the FCC "had settled the business and the terms under which local and long-distance competition would occur, I think they'd be less interested in merging and getting on with competition. That's what Congress intended, and as soon as that happens, we'll see consumer benefits."

The FCC's Mr. Kennard calls Mr. Tauzin's observation "interesting but wrong. In the long-distance marketplace, we have far more competition than in the local marketplace."

As the lawsuits piled up, and as law firms expanded their telecom practices and lobbyists crowded the FCC's corridors, phone companies started joining up in some of the biggest deals in history. SBC led the pack with its $16.5 billion acquisition of Pacific Telesis Group, the California Bell, and later with its $4.4 billion purchase of Southern New England Telecommunications Corp., a deal that still requires state and federal regulatory approval.

The consolidation was no big surprise; many experts had expected that a regulated industry, once unfettered, would naturally seek to cut inefficiencies. "Mergers are almost inevitable based on global competition, the changes in technology, and the Telecom Act," says Rep. Mike Oxley, an Ohio Republican who helped write the 1996 law.

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It is unclear when competition will become widespread. And no one knows for sure that the average consumer will enjoy it anyway. Thousands of consumers have complained to the FCC about long-distance carriers signing them up without permission -- a direct result of competition. And few consumers like the confusing monthly bills and dinnertime calls from telemarketers that competition has wrought.

"Nobody's had a clear vision of what they meant by competition," says FCC Commissioner Michael Powell, a Republican. "How many competitors do you mean? How big are they? We talk about one-stop shopping, but what do those companies look like? That's not 'Joe's phone company.' Companies are beginning to make their judgments about these questions -- and stake the flag and go for it."

For now, the flag is staked in Washington, where rivals already are taking shots at the SBC-Ameritech deal. One is AT&T, which says the 1996 law is "about opening local markets to competition, not expanding local monopolies." That's the same AT&T that last year attempted its own $50 billion merger with SBC.

Jeffrey Taylor contributed to this article.

---- INDEX REFERENCES ----

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