

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

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In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Tariffs Implementing Access Charge Reform	)	CC Docket No. 97-250
	)	
Consumer Federation of America, International Communications Association and National Retail Federation Petition Requesting Amendment of the Commission's Rules	)	RM No. 9210

REPLY COMMENTS

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**REPLY COMMENTS**

BellSouth Corporation and BellSouth Telecommunications, Inc. (“BellSouth”) hereby submit the following Reply Comments in response to the Commission’s Public Notice<sup>1</sup> providing interested parties an opportunity to refresh the record regarding pending petitions in the above referenced proceedings.

**I. INTRODUCTION AND SUMMARY**

Access charge reform is fundamental to creating a regulatory environment that fosters competition on the merits. Market-based competition, however, cannot and will not occur if the Commission approaches access reform with the view that regulatory prescriptions can work

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<sup>1</sup> Commission asks parties to update and refresh record for Access Charge Reform and seeks comment on proposals for Access Charge Reform Pricing Flexibility, CC Docket Nos. 96- (Footnote Continued)

better or faster or more effectively than the marketplace itself. The decision point for the Commission, once again, is one of direction—does the Commission reverse course and return to a heavy-handed, interventionist regulatory regime or does it continue to seek out innovative and enlightened approaches that permit the market to play an ever-increasing role?

Advocates of a prescriptive approach would have the Commission believe that it must abandon progressive regulation and focus on one and only one item—rate level. As this Reply demonstrates, a prescriptive approach constitutes bad public policy. Contrary to the belief of some of the proponents of the prescriptive approach, rates that are set equal to incremental cost do not emulate a competitive outcome. In competitive markets, firms price above incremental costs and such prices may be above, below or equal to embedded or historical costs. The degree to which prices exceed incremental costs reflects market conditions. The fundamental competitive principle ignored by advocates of the prescriptive approach is that firms, on average, must recover their historical costs and earn a normal accounting profit. No firm would enter a market or engage in any activity if it expected that it would not recover all of its investment, including sunk costs. While the market may dictate winners and losers, it is wholly inappropriate, as a matter of public policy, to pursue a regulatory approach that precludes the recovery of all costs.

Probably not overlooked by most proponents of the prescriptive approach is the fact that only incumbent local exchange carriers (“LECs”) would be subject to the regulatory aberrations caused by the prescriptive approach. The time, however, has come to remove the regulatory tilt.

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262, 94-1, 97-250, RM-9210, *Public Notice* (FCC 98-256), released October 5, 1998 (“Public Notice”).

A market-based approach to access reform is the only way the Commission can meet its objective of fostering competition. The approach builds upon a foundation of price cap regulation that establishes just and reasonable rates for interstate access services. This foundation can be disrupted by adjustments to the plan that destroy the fundamental advantages of price cap regulation. Certainly a key element is the productivity factor. Not surprisingly, some commenters renew their arguments for increasing the X-factor. None of the proposals can withstand scrutiny. The record is clear—the only adjustment to the X-factor that is warranted is a reduction.

The market-based approach requires the Commission to identify ways to relax the existing, pervasive regulatory scheme to permit competitive markets to operate. The time is ripe for the Commission to take action.

## **II. PRICE CAP REGULATION PROVIDES THE APPROPRIATE REGULATORY FOUNDATION IN THE CHANGING TELECOMMUNICATIONS ENVIRONMENT**

The calls by some parties to embark upon a proceeding to reverse the market-based access charge reform approach include, as the final outcome, a prescription of access rates at incremental costs. Putting aside for the moment the deficiencies of a prescriptive approach,<sup>2</sup> these parties have lost the context of the Commission's current regulatory regime. Even if competition were not developing for local exchange and exchange access services as some parties allege, it does not follow that a prescription of rates at incremental cost is the logical course for the Commission to follow.

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<sup>2</sup> The deficiencies of a prescriptive approach are discussed in Section III, *infra*.

Access charge reform has two primary purposes. The first is to restructure access charges to eliminate, to the fullest extent possible, irrational and uneconomic rate structures that are by-products of prior regulatory policies.<sup>3</sup> The second and most related to competitive issues, is the establishment of a regulatory paradigm that adjusts regulation to the level of competition. This regulatory paradigm in the Access Charge Reform Order is referred to as the market-based approach to regulation. The market-based, adaptive regulations are still to be adopted.<sup>4</sup>

Incumbent LECs operate under a stringent system of price regulation. While price regulation, when adopted, represented a new system of regulating interstate services, it nonetheless was and continues to be a system of regulation that establishes just and reasonable rates. As the Commission stated:

In designing an incentive-based system of regulation for the largest LECs, our objective, as with our price caps system for AT&T, is to harness the profit-making incentives common to all businesses to produce a set of outcomes that advance the public interest goals of just, reasonable, and nondiscriminatory rates, as well as a communications system that offers innovative, high quality services.<sup>5</sup>

In other words, the rates resulting from price regulation satisfy the same statutory just and reasonable standard as rates produced under a cost-based system of regulation. Price cap

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<sup>3</sup> For example, in order to support universal service, non-traffic sensitive costs associated with the end user's loop facilities were recovered through carrier access charges on a usage sensitive basis. In the Access Charge Reform proceeding, the Commission made changes to the access charge rate structure so as to substantially lessen the traffic sensitive recovery of non-traffic sensitive costs. Similarly, the Commission took steps to finalize its restructure of common switched transport, eliminating the unitary structure for common transport, which had been a transition mechanism that was instituted for the benefit of small, interexchange carriers.

<sup>4</sup> Adaptive regulation is encompassed within the debate regarding pricing flexibility.

<sup>5</sup> *In the Matter of Policy and Rules Concerning Rates for Dominant Carriers*, Second Report and Order, 5 FCC Rcd 6786, 6787 (1990).

regulation does not relax, forbear or in any other way limit the Commission's oversight of LEC rates. Price cap regulation simply "relies in the first instance on regulating prices."<sup>6</sup>

As explained by the Commission, the policy judgment that favored price cap regulation over a cost-plus system of regulation was grounded in a thorough review and comparison of the two systems and the conclusion that a "properly-designed system of incentive regulation will be an improved form of regulation, generating greater consumer benefits."<sup>7</sup> Further, the Commission found that moving away from a system where the Commission dictated prices to one in which LECs were permitted to migrate their rates to a set of prices that enhances efficiency produces economic benefits.<sup>8</sup>

The Commission's policy judgment, however, was never dependent upon the presence or, for that matter, the promise of competition. The Commission specifically rejected arguments to abandon the application of price cap regulation to LECs because interstate access was not a competitive activity. The Commission found that such arguments ignored the benefits price cap regulation can provide ratepayers:

The companies we seek to regulate under an incentive-based system are large, publicly-traded firms, that compete daily for sales of nonregulated products and services, in the financial markets, and in the labor markets. If we can design a regulatory system for these carriers' access business that mirrors the efficiency incentives found in competitive markets, we will have put in place a system that will go a long way toward making the LECs stronger, more productive competitors for all of the markets in which they must operate. The result will be an even healthier, more vital sector of the U.S. economy, and lower rates for consumers. Moreover, in their interstate access activities, the LECs continue to operate with substantial monopoly power and therefore with little incentive to become more productive. Applying incentive regulation to LECs is arguably a more significant regulatory reform in terms of its ability to generate consumer

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<sup>6</sup> *Id.* at 6789.

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 6791.

benefits than applying incentive regulation to a carrier or industry that faces substantial competition.<sup>9</sup>

The most recent modifications to the LEC price cap plan are an integral part of access reform not because these modifications lessen the regulation of LEC rates, but because they lay the foundation for competition:

They are necessary to promote, and plan for, the growth of competition envisioned by the Telecommunications Act of 1996. An X-Factor based on TFP and an input price differential provides, with the Consumer Productivity Dividend, a reasonable, challenging target for LEC access prices. Importantly, eliminating the sharing requirement will increase the incentive of incumbent LECs to become more productive and will enable us to deregulate competitive services while noncompetitive services remain under regulation....A price cap plan without sharing should greatly facilitate our overreaching goal of deregulating services that face sufficient competition by making it easier to remove from regulation those services subject to competition.<sup>10</sup>

It is abundantly clear that nothing currently before the Commission disturbs the underpinnings of price cap regulation. Indeed, those parties that continuously allege a lack of competition for exchange access reinforce the Commission's initial price cap policy and validate the Commission's choice of price cap regulation. None of the arguments regarding the state of competition weaken the Commission's rationale to improve price cap regulation so that the Commission may take the appropriate deregulatory steps with the development of competition.

The incontrovertible fact of the matter is that the system of price cap regulation produces just, reasonable and nondiscriminatory rates. In order to replace these rates, there must be

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<sup>9</sup> *Id.* at 6790-91.

<sup>10</sup> *In the Matter of Price Cap Performance Review for Local Exchange Carriers, Access Charge Reform*, Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No. 96-262, 12 FCC Rcd 16642, 16650 (1997).

specific findings that they are unjust and unreasonable.<sup>11</sup> The debate about competition is simply irrelevant to that determination.

### **III. A PRESCRIPTIVE APPROACH SUFFERS FROM A NUMBER OF FLAWS**

The parties supporting a prescriptive approach portray the time as ripe for the Commission to force access rates to incremental cost. These parties obviously view rates set at incremental costs as market-based, economic rates. They ignore or minimize the regulatory and economic impediments to setting rates at incremental costs. Certainly, implicit in the Commission's determination to wait until 2001 before considering further issues of incremental cost pricing is an understanding of the complexity of the regulatory legacy and the LECs' cost structures that surround and explain current interstate access charges.

#### **A. Universal Service And Implicit Support Contained In Access Charges Preclude Access Prices Being Set At Incremental Costs**

Noting the recent adoption of a cost model platform, MCI WorldCom and others argue that any concerns regarding universal service that may have inhibited the Commission from setting access prices at incremental cost will be resolved by July 1, 1999.<sup>12</sup> Implementation of a new high cost fund mechanism will not necessarily replace the historical levels of support that interstate access rates have provided to the intrastate jurisdiction. To date, only the cost model platform has been selected by the Commission. The size of the fund and the extent to which it addresses existing implicit support is a significant unknown. Critical to determining the actual size of the universal service fund will be the cost inputs as well as a forthcoming Joint Board recommendation regarding the percent of the fund calculated by the model that will be included

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<sup>11</sup> 47 U.S.C. §205(a).

<sup>12</sup> MCI WorldCom at 23-24; CompTel at 5-7.

in the federal universal service fund.

Because a new fund may be established on July 1, 1999, it does not follow that the fund will be sufficient to address all existing support that interstate access provides to the intrastate jurisdiction. USTA presented an industry universal service proposal that showed that the federal fund should provide, at a minimum, for the recovery of the interstate carrier common line charge, the presubscribed interexchange carrier charge and the non-service related TIC.<sup>13</sup> Failure to properly size the new federal universal service fund to include these amounts effectively leaves within interstate access charges support for universal service that historically has been provided to the intrastate jurisdiction.

The Commission cannot abdicate its responsibility for the interstate recovery of these amounts simply by defining a new federal fund at a lower level of support.<sup>14</sup> The Commission shares responsibility with the states for the recovery of the cost of an integrated LEC network that is jointly used to provide interstate and intrastate services. It reached a political compromise with the state commissions in the form of jurisdictional separations regarding how it would divide cost recovery responsibilities. To the extent this compromise has and continues to require access prices that exceed the Commission's view of "economic cost," the difference represents the intrastate support that interstate access rates provide. The Commission must either lawfully change the compromise or establish an adequate universal service fund before it can pass judgment on the cost/price relationship of interstate access.

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<sup>13</sup> See *Ex Parte*, from John W. Hunter, Senior Counsel, USTA, to Ms. Magalie Roman Salas, Secretary, FCC, Re: Ex Parte Conference Call Notice CC Docket No. 96-45, dated September 18, 1998.

<sup>14</sup> If the new Federal fund is inadequate to cover existing support, the effect is to make such support implicit, with recovery to be accomplished through interstate access charges.

**B. Past Regulatory Policies Are Also Responsible For The Current Level Of Interstate Access Rates**

The call for access prices to be set at incremental cost ignores the past regulatory policies that affect current and future access prices. None is more prominent than the Commission's past depreciation practices. Historically, the Commission prescribed long asset lives in order to keep rates low. These prescribed lives have been too long and do not appropriately reflect the decline in economic value of assets, particularly for those accounts on which technology changes have had their biggest impact. The effect over time of the failure to have depreciation rates match the rapid technological displacements and the loss in economic value has been to set depreciation accruals at inappropriately low levels. The result is that the depreciation reserve is far short of what is actually necessary. In 1997, BellSouth provided the Commission with data demonstrating that its interstate depreciation reserve imbalance is \$579.4 million.<sup>15</sup>

BellSouth had proposed that the Commission establish a mechanism distinct from access charges that would have permitted BellSouth to recover its reserve imbalance over an eight-year period,<sup>16</sup> after which the recovery mechanism would have terminated. BellSouth would have recognized this explicit reserve deficiency mechanism as a downward exogenous adjustment to its price cap indices, thereby removing the effect of this regulatory anomaly that distorts current access prices. Failure to adopt BellSouth's proposal requires that BellSouth continue to attempt

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<sup>15</sup> Attachment 3 to BellSouth's Comments in Access Charge Reform, CC Docket No. 96-262, Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Transport Rate Structure and Pricing, CC Docket No. 91-213, and Usage of the Public Switched Network by Information Service and Internet Access Providers, CC Docket No. 96-263, January 29, 1997.

<sup>16</sup> *Id.* at 7.

to recover this reserve imbalance through access prices and precludes the adoption of a pricing standard that reflects only incremental costs.<sup>17</sup>

**C. Prices Set At Incremental Costs Are Not Sustainable Or Consistent With Commission Policies And Goals**

In urging the Commission to take steps to move access prices to incremental cost levels, proponents of the prescriptive approach contend that such prices are the ones that would result if the exchange access market were fully competitive. These parties are wrong. Forcing all access prices to TELRIC/TSLRIC cost levels is fundamentally flawed as a matter of economic policy and cannot be adopted by the Commission.

Those who advocate a kind of “blank slate” version of incremental access prices<sup>18</sup> incorrectly postulate that if the market were robustly competitive, competition would drive access prices to such levels. This notion is fanciful. As Alfred Kahn explained:

In a world of continuous technological progress, it would be irrational for firms constantly to update their facilities in order completely to incorporate today’s lowest-cost technology, as though starting from scratch, the moment those costs fell below prevailing market prices: investments made today, totally embodying today’s most modern technology, would instantaneously be outdated tomorrow and, in consequence, never earn a return sufficient to justify the investments in the first place. For this reason, as Professor William J. Fellner pointed out many

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<sup>17</sup> Some might suggest that the Commission ignore the depreciation reserve imbalance because as a price cap LEC, BellSouth assumed the risk of under-depreciated plant. If this is the case, then the Commission should likewise be estopped from changing the price cap plan and prescribing access rates below that which would afford BellSouth an opportunity to recover its depreciation imbalance. This is particularly so because BellSouth took steps to avoid the current situation, but was rebuffed by the Commission. Since at least 1987 (well before the implementation of LEC price caps), BellSouth repeatedly urged the Commission to permit LECs to control their own depreciation rates. The Commission consistently declined to engage in depreciation reform that would permit carriers to recover their investments in a timely fashion. Hence, the depreciation reserve imbalance cannot be attributed to the LECs’ inaction or failure to seek appropriate regulatory changes.

<sup>18</sup> “Blank slate” incremental costs include estimates of costs based on a hypothetical, completely new network employing the most efficient possible technology and constructed from the ground up. Such cost estimates ignore actual network configurations.

years ago, firms even in competitive industries would systematically practice what he termed “anticipatory retardation”: they would adopt the most modern technology only when the progressively declining real costs had fallen sufficiently below currently prevailing prices as to offer them a reasonable expectation of earning a return on those investments over their entire economic lives. In consequence, even perfectly competitive prices would not be set at the level of these (totally) current costs.<sup>19</sup>

Trying to base prices on a “blank slate” view of the network and using cost estimates of the most efficient current technology fails to represent how real networks are produced and, therefore, biases the cost estimates downward.<sup>20</sup>

AT&T, MCI WorldCom and a few others try to pass-off as economic orthodoxy the notion that only prices equal to incremental costs are competitive, market-based prices.<sup>21</sup> Taylor debunks the rhetoric:

nothing in economic theory suggests that multiproduct firms in competitive markets price services at forward-looking incremental cost or even at forward-looking incremental cost marked up by some arbitrary allocation of shared, fixed

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<sup>19</sup> Statement of Alfred E. Kahn on FCC’s Proposed Reforms of Carrier Access Charges, Attachment 1 to USTA Reply Comments, CC Docket No. 96-262, February 14, 1997 at 6-7 (footnote omitted) (“Kahn”).

<sup>20</sup> Schmalensee and Taylor pointed out that the only relevant cost is that which is based on the incumbent’s actual network because such costs are the only costs that “capture accurately the opportunity costs that society forgoes when element/services are consumed.” Richard Schmalensee and William E. Taylor, “Economic Aspects of Access Reform: A Reply,” National Economic Research Associates, Attachment 3 to USTA Reply Comments, CC Docket No. 96-262, February 14, 1997 at 5 (“Schmalensee and Taylor”).

<sup>21</sup> Interestingly, the economic imperative that price equal incremental cost advocated by AT&T and MCI WorldCom does not extend beyond exchange access services to their own interexchange services. As Taylor pointed out, prices for many industries, including the U.S. long distance industry, systematically exceeded incremental cost. Based on an analysis of a random sample of residential customer bills between November 1997 and July 1998, Taylor concluded that residential long distance service is priced at more than three times incremental cost and that the contribution per minute in residential long distance service far exceeds the contribution present in carrier access charges. William E. Taylor, “Access Reform Again: Market-based Regulation, Pricing Flexibility and the Universal Service Fund,” Attachment A to USTA’s Comments, CC Docket No. 96-262 *et. al.*, October 26, 1998 at 14 (“Taylor”).

and common costs. Firms in competitive markets recover such costs where market conditions—not accounting conventions—permit. TSLRIC is an appropriate price *floor*, (averaged over all the different prices charged for different units of a service) but it is not a good estimate of the level of the market price of carrier access in a competitive unregulated market. A market-based approach reveals the economic cost of access, not as the sum of a TSLRIC study and an allocation of fixed costs, but as the level to which competitive pressure forces access prices. As the Commission recognized, “competition will do a better job of determining the true economic cost of providing such services.”<sup>22</sup>

The proponents of incremental cost pricing mistakenly characterize incremental costs as “true” economic costs. While forward-looking economic cost is a relevant consideration in pricing (*i.e.*, as a price floor), setting all prices at incremental cost is inappropriate and will not accurately capture the real economic costs that are incurred by society in providing services. In the presence of economies of scale and scope, such as those that characterize the telecommunications industry, incremental cost only defines a price floor. In these circumstances, the economically efficient price will typically have to exceed the price floor in order for the carrier to recover all of its economic costs. As Schmalensee and Taylor explain, “the same fixed costs (service-specific or shared/common) that give rise to the economies of scale and/or scope cannot be recovered fully if service prices are set equal to their respective incremental costs.... Only prices set in excess of TELRIC/TSLRIC can accomplish this.”<sup>23</sup>

Further, there are significant consequences should the Commission inappropriately force access prices down. In the Access Charge Reform proceeding, it was demonstrated that the Commission’s goals of maintaining infrastructure investment and encouraging innovation are simply not compatible with a prescriptive approach. Professor Kahn warned that tying “rates for new services closely to costs, incremental or otherwise, would fatally attenuate the incentives for

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<sup>22</sup> Taylor at 13-14 (footnotes omitted).

<sup>23</sup> Schmalensee and Taylor at 4-5.

incumbents to develop new and innovative services as well as of competitors to enter on a facilities basis.”<sup>24</sup> Under the regulatory paradigm constructed by AT&T and MCI WorldCom, “[i]nvestors would be forced to absorb the costs of failed ventures—as in competitive markets generally—but be denied the offsetting opportunity, essential to innovation in a competitive system, to reap whatever rewards the unregulated market would otherwise confer on ventures that turn out successfully.”<sup>25</sup>

It is not just the incentives to innovate that a prescriptive approach destroys. Even more directly and plainly, a prescriptive approach would inevitably impair drastically the ability of incumbents to make the substantial infrastructure investments that they have been making. Reducing the flow of revenues to incumbent LECs on the order of \$10 billion annually, as suggested by MCI WorldCom,<sup>26</sup> can only diminish the LECs ability to finance the infrastructure investments that the Commission has viewed as an important public policy objective.

#### **D. Prices Set At Incremental Costs Are Not A Prescription For Competition**

Many of the interexchange carriers, intoxicated by the prescriptive approach, see setting prices at incremental costs as the solution to what they perceive as a lack of competition in the local exchange market place. This one step should become the prerequisite to a variety of prospective Commission actions. The message that AT&T and MCI WorldCom preach is that

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<sup>24</sup> Kahn at 10. Indeed, the importance of setting market prices for its local network investments was recognized by AT&T’s Chairman, Michael Armstrong:

“No company will invest billions of dollars to become a facilities-based broadband services provider if competitors who have not invested a penny of capital, nor taken an ounce of risk, can come along and get a free ride on the investments and risks of others.”

“Armstrong Fires Back at Critics of TCI Deal,” TR Daily, November 2, 1998.

<sup>25</sup> *Id.* at 11.

<sup>26</sup> MCI WorldCom at 8-9.

they are the competitors of the future and the prescriptive approach is necessary to foster their participation in the competitive market. According to these parties, without prescribed rates, the Commission should deny all 271 applications;<sup>27</sup> should deny all LEC mergers;<sup>28</sup> and should do nothing that could be suggested as providing pricing flexibility for the LECs.<sup>29</sup> While the proponents of the prescriptive approach provide the Commission with a litany of “thou shalt nots,” nowhere do these parties address the impact of the prescriptive approach on competition.

This is not particularly surprising. The agendas being promoted have little to do with access charge reform. More than anything, access charge reform is being used as a forum for setting conditions or rearguing positions pertaining to BOC Section 271 relief. Indeed, AT&T goes so far as to suggest that the Commission should hold Section 271 relief hostage until access prices are reduced to incremental costs. Access Charge Reform is not about permitting the BOCs to participate in the interLATA market. The conditions for that relief are set forth in Section 271 and can neither be expanded or contracted by the Commission.

Access Charge Reform should be about making sure that the regulatory reforms that the Commission undertakes to implement are consonant with the competitive, deregulatory marketplace that is envisioned by the Telecommunications Act of 1996. The prescriptive approach is fundamentally at odds with promoting exchange access competition. It would destroy incentives for efficient entry by LEC competitors. Access prices that were forced to incremental cost would reflect forward-looking costs but would ignore sunk costs (*i.e.*, costs previously incurred, but not necessarily recovered, in the provision of service). Some of these

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<sup>27</sup> AT&T at 11.

<sup>28</sup> *Id.* at 12.

<sup>29</sup> *See e.g.*, AT&T at 9-11; MCI WorldCom at 36-39; Comptel at 18-19.

sunk costs are costs that a new entrant would have to incur in order to offer a service competitive with that of the incumbent firm. The new entrant would need to set a price sufficient to recover all costs caused by entering the market and providing the new service. With the incumbent's prices set at an incremental cost level, a new entrant would likely not be able to price its service at a level sufficient to recover its costs. Therefore, it would not enter the market. This failure to account for sunk costs not only deters efficient facilities-based entry, but also transmutes recent facilities-based entrants—having incurred large-scale sunk costs—immediately into unprofitable ventures. To the extent that alternative carriers are deterred from entering even the dense, urban markets, that they must enter before extending service into less dense markets, the absence of entry will ensure inefficient regulation rather than competition in many local markets for years to come.<sup>30</sup> As perverse as this result may be, some, like AT&T, perceive it as an advantage in order to delay BOC entry into the long distance market.

#### **IV. THE COMMISSION SHOULD CONTINUE TO MAKE MARKET-BASED REFORMS**

There are two major themes that are emphasized and are supposed to constitute circumstances that would warrant an abandonment of a market-based approach to access charge reform. The first theme, recited in unison by AT&T and MCI WorldCom, is that the BOCs are

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<sup>30</sup> Time Warner urges the Commission to reject the prescriptive approach. As Time Warner explains:

Market-based policies continue to represent the preferred means of accomplishing public interest objectives. Although a prescriptive approach offers short-term price reductions, these prices are less efficient than prices determined by a competitive market.... Finally, and most importantly, a market-based approach will permit the realization of dynamic long-term benefits, such as the entry of firms with lower costs than the ILECs.

Time Warner at 3-4.

not meeting their Section 251 obligations and as a result are inhibiting competition.<sup>31</sup> The other theme is that there is no substantial competition for exchange access, and thus, there is no need for market-based reform.<sup>32</sup> Neither theme provides a credible basis for abandoning a market-based approach to reforming access charges.

**A. BellSouth Continues To Meet Its Obligations Under Section 251**

AT&T and MCI WorldCom attempt to use Section 271 applications that have not been approved by the Commission as evidence that the BOCs are not fulfilling their obligations under Section 251. At the outset, each application BellSouth has filed with the Commission has been accompanied by findings by the relevant state commissions, based on hearings held on the record, that in fact all conditions set forth in Section 271 for interLATA relief have been satisfied. Next, every decision the Commission has issued, thus far, has articulated new standards for satisfying the checklist that were unknown to BellSouth at the time the application was filed. Failure to meet a newly articulated standard hardly evidences foot-dragging by BellSouth in meeting its obligations under the Act.

Nor do the specific items mentioned in AT&T's or MCI WorldCom's comments demonstrate an attempt by the BOCs to slow local exchange competition. For example, AT&T and MCI WorldCom imply that competition will be limited because BellSouth does not provide reasonable access to unbundled network elements ("UNEs").<sup>33</sup> These parties are wrong. BellSouth will extend UNEs to a competitive LEC's virtual or physical collocation arrangement and will terminate those UNEs in a way that will permit competitive LECs to combine these

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<sup>31</sup> AT&T at 8-14; MCI WorldCom at 17.

<sup>32</sup> AT&T at 3-8; MCI WorldCom at 6-21.

<sup>33</sup> AT&T at 4; MCI WorldCom at 12-18.

UNEs as they desire. Moreover, while collocation is the tested and viable method for competitive LECs to combine UNEs, BellSouth has never limited access to UNEs to just collocation arrangements. BellSouth will consider any bona fide request for an alternative means to gain access to UNEs. Hence, BellSouth cannot be viewed as limiting competitive LECs access to UNEs.

MCI WorldCom's lament regarding the prices of UNEs is nothing more than an expression of its dissatisfaction with the statutory scheme that gives exclusive authority over UNE pricing to the state commissions. The Eighth Circuit's reversal of the Commission's rules prescribing a pricing methodology for UNEs does not render the statute ineffective and unworkable, as MCI WorldCom would have the Commission believe. Indeed, CompTel points to the state cost-based methodologies for establishing UNE and interconnection prices as the appropriate method for prescribing access charges.<sup>34</sup> As CompTel notes, most states have adopted TELRIC, the same method originally adopted by the Commission.<sup>35</sup> Thus, MCI WorldCom's argument lacks substance.

Equally lacking merit is AT&T's claim that access charges that are above cost enable BOCs to engage in a competitive price squeeze if they are permitted to enter the interLATA market.<sup>36</sup> This argument has been recycled before the Commission in one form or another at every conceivable opportunity. Thus, it has been presented in connection with the mergers of

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<sup>34</sup> CompTel at 8.

<sup>35</sup> *Id.*

<sup>36</sup> AT&T at 11.

Bell Atlantic/NYNEX and SBC/SNET. In both cases, the Commission rejected the claim.<sup>37</sup> Of course, the Commission also rejected this argument in its initial Access Charge Reform order.<sup>38</sup>

Access prices are competitively neutral in the interexchange market because all long distance suppliers pay the same tariffed price for access, including a BOC's Section 272 long-distance affiliate. There are safeguards in place that make anticompetitive conduct impossible:

The structural and nondiscrimination safeguards contained in section 272 ensure that competitors of the BOC's section 272 affiliate have access to essential inputs, namely, the provision of local exchange and exchange access services, on terms that do not discriminate against the competitors and in favor of the BOC's affiliate.<sup>39</sup>

Aside from the protections against a price squeeze occurring, even assuming *arguendo* a price squeeze was attempted, it could not succeed. No price squeeze would force any of the major long distance carriers' sunk network capacity to exit the market. Another carrier could purchase the network of any long distance carrier exiting the market at a discount. The new carrier could reintroduce this capacity and have a lower cost structure than the original carrier. Consequently, the new carrier could sell service at a lower price. Given these circumstances, any benefit that BellSouth could hope to gain from a price squeeze would not materialize since it

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<sup>37</sup> *In the Matter of Applications of NYNEX Corp. and Bell Atlantic Corp. for Consent to Transfer Control of NYNEX Corp. and Its Subsidiaries*, File No. NSD-L-96-10, Memorandum Opinion and Order, 12 FCC Rcd 19985, 20045 (1997); *In the Matter of Applications for Consent to Transfer Control of Licenses and Section 214 Authorizations from Southern New England Telecommunications Corporation to SBC Communications, Inc.*, CC Docket No. 98-25, Memorandum Opinion and Order, released October 23, 1998 at ¶¶ 23-24.

<sup>38</sup> *In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing and End User Common Line Charges*, CC Docket Nos. 96-262, 94-1, 91-213 and 95-72, First Report and Order, 12 FCC Rcd 15982, 16102-16104 (1997).

<sup>39</sup> *In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, 11 FCC Rcd 21905, 21913 (1996).

would still have to compete against the lower prices of the new carrier. Thus, a price squeeze is an especially unlikely event.

**B. Local Competition Continues To Progress**

Despite the pronouncements by some of the demise of local competition, the fact is that local markets are irreversibly open to competition as evidenced by the success of competitive LECs using every mode of entry contemplated by Congress and the FCC in serving every market segment that they deem sufficiently profitable. In Attachment 1, BellSouth provides a report on the status of local competition in its region.<sup>40</sup> This report belies claims that competition is not growing.

Those who argue that the Commission should abandon market-based access reform contend that the Eighth Circuit's reversal of the Commission's UNE pricing rules eliminated the necessary foundation for local exchange competition to take root. The facts contradict the gloom-and-doom portrayals of competition. Since May 1997, when the Commission adopted a market-based approach to access reform, CAP/CLEC networks in BellSouth's nine states increased from 98 to 159.<sup>41</sup> Between May 1997 and September 1998, local interconnection trunks increased 767% to 262,155 trunks.<sup>42</sup> Likewise, the number of unbundled loops provided by BellSouth has increased 983% to 28,730 and in similar fashion the number of facilities-based CLEC local service lines have grown to 163,869.<sup>43</sup> Equally significant is that this competitive

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<sup>40</sup> Attachment 1, "The Status of Competition in the BellSouth Region—Access and Local Exchange Service Markets." ("Attachment 1")

<sup>41</sup> Attachment 1 at 1.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

presence is not just limited to the large, dense urban cities. Each of the top thirty markets in BellSouth's region have multiple facilities-based wireline competitors.<sup>44</sup>

The facts show that competition is present and expanding. The growth that competitors are experiencing is precisely the type of market performance that the Commission's market-based approach to access reform contemplated. Other than MCI WorldCom's and AT&T's rhetoric, there simply is no foundation to the argument that competitive conditions have changed since the Commission adopted a market-based approach.

### **C. Regulatory Reform Is Needed Now**

Competition will continue to expand. In anticipation of this expansion and in recognition of the competition that exists, it is important that the Commission establish and have in place rules that can accommodate changes to marketplace conditions as they arise. The ideas of some that the Commission should let competition develop first and then, in yet another proceeding, determine if any rule changes should occur are utter nonsense. Competition is already here and processes based on reactive regulation are unsuitable in the current marketplace.

A regulatory style based on playing "catch-up" may be good for LEC competitors but it is not good for competition. Competition displaces the need for regulation. Indeed, regulation and competition are incompatible. Unnecessary regulatory intervention only serves to distort the marketplace and to create ineffective and inefficient competitors.

A substantial benefit of a market-based approach to access reform is that it reflects a self-adapting regulatory policy that enables market forces to replace regulation as market conditions warrant. By design, adaptive regulation, and, hence, a market-based approach, does not get

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<sup>44</sup> *Id.* at 5 and Exhibit C.

ahead of the market. Instead, it removes the lag that characterizes traditional regulatory approaches.<sup>45</sup>

Adaptive regulatory policies are implemented as competitive conditions warrant adjustments in regulation. Thus, a market-based approach becomes a policy road map that lays out in advance the specific actions that the Commission will take in response to the occurrence of specifically identified contingencies. Such a well-enunciated plan provides a firm foundation for market participants to make investment decisions. The absence of such a clear vision gives rise to uncertainty and creates the opportunity for endless regulatory disputes.

**V. THE COMMISSION MUST REJECT THE ABSURDLY HIGH PRODUCTIVITY ESTIMATES OF THE IXC'S**

AT&T and MCI WorldCom are tireless in their efforts to have the Commission raise the productivity factor in the LEC price cap plan.<sup>46</sup> As shown by USTA in its Reply, these parties' X-factor analyses simply amount to nothing more than self-serving calculations designed to force reductions in access charge prices.

USTA demonstrated in its comments that, if anything, the current 6.5 percent productivity factor is too high. USTA's update of the Commission's productivity study showed the upward productivity trends that the Commission used to justify the current productivity

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<sup>45</sup> One of the significant disadvantages to traditional, reactive regulation is that such regulation shifts the focus of rivalry from the competitive marketplace to the regulatory arena. Regulation, particularly that which has become outdated, can confer a competitive advantage upon a class of competitors. In the exchange access market, where only the incumbent is regulated and all other participants are effectively deregulated, the Commission's asymmetric regulatory policies provide an unparalleled advantage to LEC competitors. Maintaining the advantage bestowed by asymmetrical regulation becomes a key business strategy. The distaste for a market-based approach reflects, to some degree, the awareness that such an approach establishes conditions under which the competitive advantages conferred by regulation will evanesce.

<sup>46</sup> AT&T at 14-27, MCI WorldCom at 27-36.

factor did not materialize. Indeed, based on the updated data, it is clear that the productivity factor should be reduced.

AT&T's and MCI WorldCom's attempt to force an increase in the productivity factor by reverting to an interstate only measure of productivity cannot withstand scrutiny. Accompanying USTA's Reply is an analysis prepared by Dr. Frank Gollop that demonstrates that in the context of the LEC's production technology, there is no economically meaningful way to isolate a measure of productivity growth for interstate services. Dr. Gollop shows that (1) concepts of separate interstate and intrastate productivity growth do not exist in economic theory; (2) increased interstate rates of return are not evidence of interstate-only productivity growth; (3) because common and joint inputs cannot be causally assigned to distinct output categories economic theory does not support the notion that interstate productivity is higher because interstate output increased faster than total output, and (4) in the presence of scale economies, greater output growth generates greater productivity growth but such scale economies reside in the common and joint inputs and therefore apply to the entire network taken as a whole.

The record does not support an increase in the productivity factor. The evidence, however, is clear that the 6.5 percent factor is predicated on an increasing productivity trend that has not taken place. The new data filed by USTA support an X-factor reduction and BellSouth urges the Commission to take such action.

## **VI. CONCLUSION**

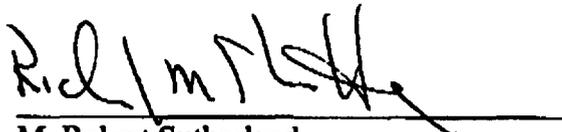
The promise of access charge reform is that the Commission will improve the existing set of regulations in a manner that is consistent with the pro-competitive and deregulatory aims of the Telecommunications Act. This result can only be obtained by a progressive regulatory approach that recognizes the role of the marketplace. Accordingly, the cornerstone of access

reform should be an adaptive regulatory paradigm that relaxes regulatory constraints in a manner coincident with the expansion of competition that is taking place.

Respectively submitted,

BELLSOUTH CORPORATION  
BELLSOUTH TELECOMMUNICATIONS, INC.

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Date: November 9, 1998

**CERTIFICATE OF SERVICE**

I do hereby certify that I have this 9<sup>th</sup> day of November 1998 served the following parties to this action with a copy of the foregoing REPLY COMMENTS by hand delivery or by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties on the attached service list.

  
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Juanita H. Lee

# **ATTACHMENT 1**

**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**Federal Regulatory  
Competitive Analysis  
October 1, 1998**

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## **The Status of Competition in the BellSouth Region – Access and Local Exchange Service Markets**

The purpose of this report is to summarize the current status of facilities-based access service competition within BellSouth Telecommunications, Inc.'s (BellSouth's) nine state serving area. In discussing the current status of the competitive market for access services, the report examines the historical growth of access competition over time, with particular focus on the rapid expansion of facilities-based access competition since the passage of the 1996 Telecommunications Act ("Act").

### **Introduction**

Competition is here. The facts prove unquestionably that there is competition, it's growing, and it's here to stay. The numbers and types of active competitive providers, as well as the numbers and types of customers served, have expanded dramatically since the passage of the Telecommunications Act of 1996. Exhibit A to this report shows that the growth in several key factors (e.g., the number of operational CLECs, operational CAP/CLEC networks, local interconnection trunks, collocation arrangements, unbundled loops, and facilities-based CLEC local service lines) since May, 1997, has been phenomenal. As shown, operational CAP/CLEC networks in the BellSouth area have increased 62%, from 98 to 159. Partially as a result of these additions, and partially due to general growth, BellSouth-provided local interconnection trunks have increased 767%, from 30,246 in May, 1997 to 262,155 in September, 1998; unbundled loops have increased 983%, from 2,653 to 28,730; facilities-based CLEC local service lines have grown from 1,948 to 163,869, or 8,312%; and in-service and pending collocation arrangements have increased 226%, from 235 to 765. These numbers prove that there is competition, and that it is growing. In addition, if the trend continues, by the beginning of the year 2000, just over a year away, there will be close to 100 additional networks, over 300,000 unbundled loops, more than 2 million additional interconnection trunks, and close to 13,800,000 facilities-based CLEC local service lines. These are hardly figures to sneeze at.

Throughout BellSouth's nine state serving area, an increasing number of competitors offer services which are designed to provide customers with a variety of dedicated and switched connections to their own networks, as well as the networks of other carriers, thereby bypassing BellSouth's network entirely. Large customers construct their own networks to interconnect their locations utilizing privately-owned facilities which completely bypass BellSouth, Competitive Access Provider (CAP), Competitive Local Exchange Carrier (CLEC), and IXC networks.

Traditionally, the initial step in the bypass process is referred to as service bypass. Service bypass is simply "tariff shopping" for the least expensive access alternative among BellSouth intrastate and interstate access services. Over the past ten years, BellSouth rates for high capacity ("HICAP") dedicated access services (special access) have continued to decline as traditional price subsidies from these services have been reduced. As special access rates have declined, IXCs have continued to lower the threshold at which their bulk offerings (special access based) become economical for customers. This reduction has resulted in an ever-increasing migration of customers from higher contribution switched access services to lower contribution special access services. While BellSouth may not lose these customers entirely, the revenue and resulting contribution traditionally provided by these customers is steadily declining. Service bypass not only has direct negative impacts on switched access revenues, but also, in a majority of cases, intraLATA toll revenues are dramatically reduced or totally lost as these customers increasingly deliver all of their toll traffic to an IXC over special access facilities.

During the early and mid-1980s, special access service was an economically viable option for only the largest volume long distance customers. It is not surprising that the first facilities-based competition for access services began in areas of the country where large numbers of these high volume customers could be found in highly concentrated geographic areas. The nation's two oldest and largest CAPs, Teleport Communications Group (TCG) and Metropolitan Fiber Systems (MFS), began operations in the mid-1980s with their initial construction of fiber optic networks in New York City and Chicago, respectively. Their initial target customer groups consisted of the high volume financial market customers concentrated in

these two metropolitan areas. As special access (DS1 and DS3) rates and costs declined in the late-1980s, TCG, MFS, and an increasing number of new CAP market entrants began to construct networks in major metropolitan markets nationwide, including Atlanta, Los Angeles, San Francisco, Washington, Dallas, Denver, and Miami. During 1989, BellSouth began to experience its first facilities-based CAP competition with the construction of networks in Atlanta and South Florida (Dade, Broward and Palm Beach counties). These CAPs targeted the high volume corporate and institutional customers, heavily concentrated in the downtown central business districts (CBDs) of these metropolitan areas.

As special access services became an economically attractive alternative to a greater number of lower volume customers, and thereby dramatically increasing the addressable market size, the number of competitive providers seeking to serve this market also grew dramatically over time. Larger metropolitan areas began to see the emergence of additional CAP market entrants. Significant geographic market expansion occurred as CAP networks in the CBDs of larger metros expanded by adding additional fiber routes to serve surrounding suburban office parks, as well as high density small and medium business customer concentrations throughout the metropolitan markets. Medium and small business customers joined the large corporate and institutional customers of the traditional CAPs. Tier I metropolitan areas were joined by Tier II cities; and now Tier III cities and towns are emerging as targets for CAP facilities deployment. Today, the facilities-based CLEC access competitors serve single-line business and residence customers as well.

During the mid-1990s, CAPs began adding switching capabilities to their fiber optic networks to expand their product line to include switched access service offerings. With the passage of the Act, facilities-based competitors began to rapidly deploy the capabilities necessary to deliver local exchange services in combination with their access and long distance services. Exceptional growth in the Internet access service market and its demands for ever-increasing bandwidth, coupled with the opening of the local exchange service market to competition, have served to dramatically alter the access market as a whole.

Today small business customers with as few as six switched local exchange service lines and a desire to begin advertising and marketing their products via the Internet are served by DS1

access facilities. By combining local service needs, Internet access services, long distance, and messaging, these small businesses are rapidly migrating from an environment of multiple telecommunications service providers to a single provider offering a bundle of services delivered to the small business location over high bandwidth digital facilities. Indeed, even residential customers have begun to follow this migration as increasing numbers are replacing their traditional two-wire analog POTS lines with cable modem service including IP-based telephony, ISDN offerings, ADSL, and other advanced services offered by an ever-growing number of facilities-based local exchange service competitors. Recognizing these market trends, IXC's either become or acquire CAP's; CAP's become CLEC's; and CLEC's become Internet Service Providers ("ISPs"). Even more recently, the ISPs are evolving into IXC's.

In many markets, in addition to facilities-based access and local service competition from wireline CAP's and CLEC's, technologies such as microwave, VSAT (Very Small Aperture Terminal), wireless fiber (38Ghz), wireless data, Wireless Internet Access, LDMS, Broadband PCS, and LEO (Low Earth Orbiting Satellite) compete directly with BellSouth's wireline-based access services. Large customers continue to employ privately owned facilities to displace BellSouth services completely.

Competition is here; it is significant and growing daily. Competitors offer alternative service choices for virtually every product and service currently offered by BellSouth. In the access services market, competitors have built upon past successes in marketing to carrier and large corporate customers to expand their penetration in every major business market within BellSouth's region. These competitors provide dedicated access connections, as well as direct switched access service bypass, in the provisioning of facilities-based local exchange services.

Competition is ubiquitous and irreversible across the entire BellSouth market regardless of how the market is defined. Expanding competition transverses all BellSouth product line service offerings. Competition is growing in all BellSouth geographic serving areas from major metropolitan areas to small towns and suburbs. Competition is present in all customer segments from the carrier markets to single family residences.

## Wireline CAP Competition in the BellSouth Region

As previously mentioned, the first CAP networks began to emerge in the BellSouth region in 1989 in the Atlanta, Georgia and South Florida markets. By 1994, fiber-optic CAP networks were operating in all nine states of the BellSouth region and were serving an estimated 16 geographic markets. As of September 1998, approximately 155 competitive wireline networks were in service, offering competitive access and local exchange services in 77 BellSouth cities. Exhibit B to this report graphs the growth in wireline competitive networks for each of BellSouth's nine states over the last nine years.

As illustrated by Exhibit B, CAP wireline network deployment within BellSouth's region grew by 2,850% from the beginning of 1991 through December 31, 1995. This rapid growth continues with active CAP networks more than doubling during the two-year period from January 1, 1996 to January 1, 1998. During the first nine months of 1998, the CAP industry has averaged the activation of almost one new wireline network each week within BellSouth's serving area.

As of September 1998, each of the top thirty markets in BellSouth's serving region currently has multiple facilities-based wireline competitors. While BellSouth's larger metropolitan areas have experienced an explosion in wireline facilities-based competition, these competitors have also been expanding geographically to serve medium and smaller markets throughout BellSouth's region. Smaller metropolitan areas, such as Hattiesburg MS, Lake Charles LA, Greenville SC, and Augusta GA, also currently have multiple wireline competitors for access services, including local exchange service. As of September 1998, customers in 45 of the 77 cities served by wireline facilities-based competitors had two or more operational facilities-based alternatives to BellSouth's local exchange and access service offerings. Exhibit C identifies these metropolitan areas and presents the growing choices that customers in Tier II and Tier III markets enjoy across the BellSouth region. As can be seen by the map, five metropolitan areas (Atlanta, Fort Lauderdale, Miami, Orlando, and Charlotte) have at least a dozen wireline facilities-based providers competing with BellSouth. In the Atlanta market alone, two dozen (24) wireline facilities-based competitors offer customers services that directly replace BellSouth's access and local exchange service offerings.

Without exception, every currently active CAP in the BellSouth region has expanded its traditional product line to include local exchange service offerings. e.spire Communications (formerly ACSI) offers competitive access and data services in over 20 markets, spanning all nine states in the BellSouth region, and is currently providing wireline business local exchange services in all markets. AT&T offers business customers its facilities-based Digital Link local exchange services in all nine BellSouth states. MCI WorldCom (MFS, MCImetro, and Brooks Fiber) offers business customers competitive local exchange services in Florida, Georgia, Mississippi, North Carolina, and Tennessee. MediaOne and Knology offer their residential CATV customers in Alabama, Georgia, Florida, and South Carolina digital facilities-based local exchange services. Dozens of other CAPs operate as CLECs in multiple markets throughout the BellSouth region.

All CAPs are considered active or potential facilities-based CLECs and all currently active facilities-based CLECs provide direct competition for BellSouth access service revenues. Therefore, the acronyms “CAP” and “CLEC” are used interchangeably in this report, and should be considered synonymous, as applied to facilities-based competition in the access service market within the BellSouth region.

### **Facilities-Based Wireline CLEC Competition in the BellSouth Region**

Facilities-based CLECs enter the market by constructing their own network transmission and switching facilities, and may supplement these capabilities by using unbundled network elements (UNEs), such as loops or ports, provided by BellSouth.

Some facilities-based competitors, including CAPs such as Intermedia Communications (ICI), ICG Telecom (ICG), e.spire, ITC DeltaCom, MCI WorldCom, and WinStar Wireless have built HICAP transmission facilities, utilizing advanced fiber optic and high bandwidth wireless technologies in the downtown CBDs of metropolitan areas. By equipping these HICAP networks with switching capabilities, these CAPs/CLECs provide facilities-based local exchange services to customers along their HICAP transmission routes almost exclusively through the use of their own facilities. These competitors utilize advanced digital transmission technologies, such as SONET-based systems, to dramatically improve the capacity and quality

of their transmission networks and significantly lower the cost of transport. Because of these technological advancements, switches are no longer required to be in close proximity to a customer location in order to provide local exchange service. Entrants can deploy their own switching equipment and/or utilize BellSouth's or another CLEC's. With today's fiber connectivity, a single switching office may be used to compete effectively throughout a large metro area such as Atlanta. Remote switching facilities can be connected to the main switching equipment by fiber to allow a single switching center to serve an entire LATA, or even an entire state.

Traditional CAPs generally focus almost exclusively on serving business local exchange customers utilizing HICAP facilities because their facilities-based transport routes are constructed to target the business end-user. These facilities-based competitors may use BellSouth's unbundled loops and resold services to fill gaps in their current coverage area or to test new markets prior to expanding their own network facilities.

CATV companies, such as MediaOne and Knology, have also made significant investments to upgrade their old coaxial cable networks to Hybrid Fiber/Coax networks in order to support the delivery of higher bandwidth interactive programming and information services, Internet access, and cable telephony. By equipping their fiber/coax networks with switching capability, these competitors provide competitive local exchange services to both business and residence customers who are passed by their hybrid fiber/coax network. Because CATV companies currently have their own network facilities directly serving customer locations throughout their CATV franchise area, they rarely utilize BellSouth unbundled loops to provide their facilities-based local service. Local exchange services are provided almost exclusively through the use of the CATV networks that are interconnected to BellSouth's public switched network for the exchange of local traffic.

Facilities-based wireless CLEC entrants such as WinStar and PCS providers have constructed their own wireless network transmission and switching facilities to provide local services which compete with BellSouth's wireline local exchange network. These wireless CLECs utilize spectrum, licensed by the FCC, to replace the need for wireline local loops and transport facilities.

As previously mentioned, the majority of CAPs have equipped their wireline fiber-based networks with switching capability and have evolved into full-service competitive local exchange carriers (CLECs). Facilities-based CLECs currently offer customers a full range of telecommunications services including special and switched access, transport services, private line services, highspeed data, local exchange service, long distance, and enhanced service offerings. CLECs offer these services on a wholesale basis to the carrier market including IXCs, Enhanced Service Providers, Wireless Service providers, Shared Tenant Service Providers, and other CLECs. CLECs also market their retail offerings directly to large corporate and institutional customers, medium and small business customers, Multi-Family Dwelling Units (MDUs), and residential single-family dwellings. Many CLECs bundle wireline and wireless, local and long distance, intraLATA and interLATA, and Internet access and entertainment services into discounted “one-stop shopping” service packages which BellSouth can not provide due to current regulatory restraints.

Exhibit D to this report provides representative examples of advertising by a few of BellSouth’s facilities-based competitors. As advertised, these facilities-based competitors provide retail and wholesale customers unique “one-stop shopping” service packages for all their communications needs. MCI WorldCom, ITC DeltaCom, Frontier Communications, and dozens of other companies provide retail customers throughout the BellSouth region with both dedicated and switched long distance services, data services, Internet services, local exchange services, enhanced services, and customer premises equipment. MCI WorldCom, ITC DeltaCom, ICG Communications, Intermedia Communications, NextLink, and dozens of others offer the wholesale carrier markets a wide range of products including dedicated and switched access, transport services, SS7 services, operator services, and directory assistance services. Other competitors combine local, long distance, Internet access, and even wireless offerings into unique packages for small businesses and residences.

During 1994, BellSouth’s CAP competitors began to offer switched access and transport services in addition to their special access services. With the passage of the Act in February 1996, an expansion of switched access and local exchange service competition occurred. Mirroring the evolution of the CAP industry, wireline facilities-based CLECs chose BellSouth’s Atlanta and South Florida urban markets for their initial CLEC market entry within

the region. Fueled by the availability of unbundled network elements (UNEs) provided by BellSouth, as well as direct peer-level interconnection to BellSouth's local exchange network, access to BellSouth directory assistance, E911, and operator services, and the already extensively deployed networks of the CAPs, wireline facilities-based CLECs very quickly expanded across BellSouth's entire nine state service area.

Exhibit E graphically illustrates the rapid market entry growth of wireline facilities-based CLECs since the passage of the Act. Four CLECs had begun to deliver facilities-based local exchange services in BellSouth's Atlanta and South Florida markets by the end of June 1996. By the end of September 1998, over ninety facilities-based CLEC networks were serving customers across the entire BellSouth region. These facilities-based CLECs provide services exclusively over their own wireline network facilities, as well as through the use of unbundled network elements provided by BellSouth. During 1997, the number of active wireline facilities-based CLECs within BellSouth's region almost quadrupled, growing from 11 to 41 on a state-by-state basis. During the first nine months of 1998 alone, wireline facilities-based CLECs have more than doubled, from 41 to 91.

### **Wireline Facilities-Based Competition in the BellSouth Region**

As of September 1998, wireline facilities-based CLECs were providing approximately 164,000 local exchange service lines over their own network facilities within BellSouth's nine state region. Although wireline facilities-based business local exchange services have been offered by BellSouth's competitors for just over two years, approximately 154,000 facilities-based CLEC business local exchange service lines were in service at the end of September 1998. Facilities-based competition for residential local exchange services did not begin to emerge in BellSouth's serving area until early 1998. As of September 1998, approximately 10,000 competitively provided facilities-based local service lines were serving residential customers. Exhibit F illustrates the dramatic growth of facilities-based CLEC local exchange lines in BellSouth's serving area since their emergence in May 1996. During the second and third quarter of 1998, business local exchange lines provided by facilities-based CLECs more than doubled, growing from an estimated 74,752 in-service lines as of April 1, 1998 to 154,172 in-service lines as of September 30, 1998. Residential facilities-based competition within

BellSouth's region grew by almost 800% during the same period, from 1,085 lines in-service to 9,697 lines in-service.

BellSouth does not possess sufficient information to determine the exact number and class of service of all facilities-based local exchange service lines currently provided by CLECs in the BellSouth serving area. BellSouth has, however, developed the provided estimates of CLEC facilities-based local exchange service lines in service, based on information currently available to BellSouth, including unbundled loops purchased, ported telephone numbers, directory listings, interconnection facilities, E911 database updates, and collocation information. This internal information has been validated and checked against BellSouth-commissioned third-party market research and external public data sources such as press releases, speeches, interviews, regulatory and financial filings, etc., where such information is relevant to BellSouth's serving area and readily accessible to BellSouth. It is BellSouth's belief that the estimates of CLEC-provided lines included in this report represent minimum quantities verifiable by BellSouth. Actual CLEC-provided services may substantially exceed BellSouth's estimates.

As the number of competitors and competitively provided local exchange lines has grown so has the demand for local interconnection trunks for the exchange of local traffic between BellSouth's network and the networks of facilities-based CLECs. Exhibit G illustrates the growth in local interconnection trunks in service within the BellSouth region. As of September 30, 1998 approximately 262,155 local interconnection trunks were in use by wireline facilities-based CLECs in BellSouth's nine-state region, representing a growth of almost 127% from the 115,676 local interconnection trunks in service as of April 1, 1998. Currently CLECs have approximately 1.7 voice grade trunk-side interconnection paths in service for each facilities-based CLEC-provided local exchange service line that BellSouth has been able to verify. This factor alone would seem to indicate the extremely conservative nature of BellSouth's facilities-based local exchange line loss estimates.

Estimates of competitively provided special access circuits in the BellSouth region have not been completed at this time. However, third party market research studies performed by Quality Strategies for BellSouth indicate that as of the third quarter of 1997, CAPs had captured approximately one-third of all HICAP (DS1 & DS3) special access circuits in BellSouth's

larger urban markets including Atlanta, Orlando, and the South Florida market, which includes Miami, Fort Lauderdale, and West Palm Beach. Quality Strategies' research in smaller urban markets such as Birmingham, Charlotte, Louisville, Memphis, Nashville, and New Orleans indicates that during the second quarter of 1997, facilities-based competitors had captured approximately 10% to 15% of the HICAP special access services market. With the rapidly expanding growth in the number of competitors, the number of markets served, and the continuing expansion of competitor product offerings, including local exchange service, BellSouth expects the special access market shares of facilities-based competitors to continue their rapid growth through 1998 and beyond.

Exhibit H attached to this report represents an estimate of competitors' market shares, from 1994 to 1998, based on the results of Quality Strategies' HICAP market research for selected BellSouth markets. As shown, competitive market shares for HICAP special access services have continued to grow over time in each of the BellSouth markets studied.

### **Conclusion**

Strong, well funded and highly successful CAPs/CLECs (both wireless and wireline) have flocked to BellSouth's serving area and more will enter these markets in the coming months. Traditional CATV companies and CAPs have increased their already substantial revenue streams by adding business and residential local exchange services to their product offerings. CLECs bundle facilities-based and resold local exchange services, for all customers into packages that include long distance, Internet access, wireline and wireless services, and other enhanced telecommunications services. In the intraLATA toll market alone, BellSouth has lost over 6 million customers who have selected a competitor as their intraLATA long distance service provider.

As shown in Exhibit C, 17 metropolitan BellSouth markets have at least 6 facilities-based competitors, and over 60 cities have at least one active facilities-based competitor.

An increasing number of competitors offer services which are designed to provide customers with a variety of dedicated and switched connections to their own networks as well as the

networks of other carriers, thereby bypassing BellSouth's network entirely. Large customers construct their own networks to interconnect their locations utilizing privately-owned facilities that completely bypass BellSouth, CAP, CLEC, and IXC networks.

BellSouth's nine-state access service and local exchange market is currently open to local exchange service competition, on both a facilities and resale basis, to both wireline and wireless competitors. This report demonstrates the successes achieved by the State PSCs, BellSouth, the FCC, and the CAP/CLEC industry in bringing competitive choices to business and residence customers in each state in BellSouth's serving area. A strong regionwide competitive infrastructure is in place. Multiple local networks are in operation in BellSouth's major business and population centers. Facilities-based competitors have invested, and continue to invest, billions of dollars in their own facilities as well as teaming, cooperating, and sharing network infrastructure and capacity with other CLECs to assure their combined success. Microwave, fiber, PCS, coaxial cable, and other technologies are currently in use by CLECs to provide regionwide, facilities-based coverage capable of serving the majority of BellSouth's business access service and local exchange service customers as well as significant portions of BellSouth's residential local exchange service base. BellSouth has provided nondiscriminatory access to its local network facilities and services for use by CLECs (1) to assist them in delivering services over their own network facilities; (2) to use their network facilities in combination with elements of BellSouth's network; and (3) to provide service through the resale of BellSouth provided retail service offerings.

Competition is widespread throughout the region. In the access services market, competitors have built upon past successes in marketing to carrier and large corporate customers to expand their penetration in every major business area within BellSouth's region. In markets throughout BellSouth's nine state serving area, competitors provide dedicated access connections, as well as direct switched access service bypass, in the provisioning of facilities-based local exchange services. BellSouth estimates that wireline and wireless competitors currently serve over 750,000 business and residential local exchange access lines on a facilities-based and resold basis. Competitors provide hundreds of thousands more voice-grade equivalent (VGE) access lines over their own facilities-based special access lines. Although these special access lines have not been reported as local exchange service lines in this report, they clearly replace

traditional switched local exchange services, as well as BellSouth provided HICAP access services, at an ever increasing rate as the hunger for greater bandwidth grows among business and residential customers alike. Cable modem service and dedicated access services to the Internet or interstate long distance carriers continue to replace traditional switched local exchange services. Wireless services increasingly replace traditional wireline local exchange services. Competitors offer alternative service choices for virtually every product and service currently offered by BellSouth.

Competition is significant and growing daily. The rate of growth, and the impact of this growth on BellSouth's operations and its revenue streams, increases weekly. The facts prove unquestionably that there is competition; it's growing, and it's here to stay. It is time for competition to drive the dynamics of the telecommunications services market, not prescriptive regulation.

**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT A**

**KEY COMPETITIVE INDICATORS  
COMPARISON  
MAY 97 TO SEP 98**

	<u>May-97</u>	<u>Sep-98</u>	<u>Absolute Growth</u>	<u>%Growth</u>
<u>Operational CLECs</u>	98	162	64	65%
<b>Facilities-Based</b>	22	37	15	68%
<b>Resale Only</b>	76	125	49	64%
<u>Operational CAP/CLEC Networks</u>	98	159	61	62%
<u>Local Interconnection Trunks</u>	30246	262155	231909	767%
<u>Collocation Arrangements (In-Service &amp; Pending)</u>	235	765	530	226%
<u>Unbundled Loops</u>	2653	28730	26077	983%
<u>Facilities-Based CLEC Local Service Lines</u>	1948	163869	161921	8312%
<b>Business</b>	1920	154172	152252	7930%
<b>Residence</b>	28	9697	9669	34532%

**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT B**

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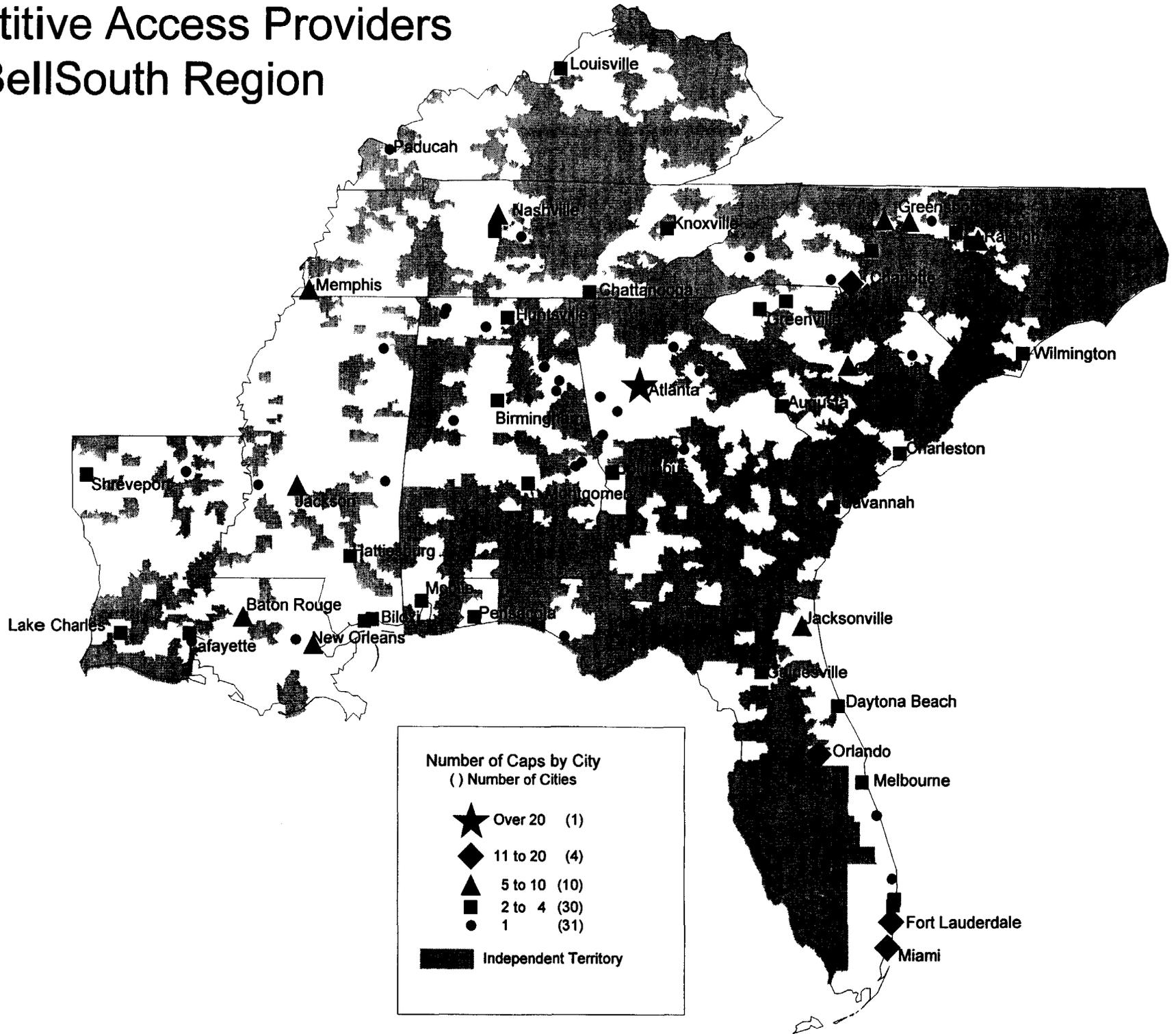
**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT C**

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# Competitive Access Providers in the BellSouth Region



**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT D**

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**MCIWORLD**COM

Products & Services

**Products & Services**

You are here > Products & Services

**MCI WorldCom On-Net Services <sup>sm</sup>**

**Product Vision**

In today's increasingly complex communications environment, businesses of all types must deal with different companies and networks, disparate products and services, and multiple contacts and contracts. It's not only confusing and often chaotic, but draws critical focus away from key business activities.

**Now, imagine this:**

A single access method for all of your voice, data and Internet services. The industry's most extensive portfolio of integrated products and services volume discounts across local-to-global services. One point-of-contact for all of your voice and data services, wherever you do business.

This is the vision of MCI WorldCom<sup>sm</sup> - a vision that is now a reality with the introduction of MCI WorldCom On-Net Services.

**Need More Information?**

- Residential
- Small Business
- On-net

**Voice Services**

- Local Service
- Long Distance
- Toll Free
- Calling Card
- Enhanced Call Routing
- Global Network Services
- and more...

**Data Services**

- Internet Access
- Internet SLAs
- Private Line
- Frame Relay
- ATM
- ISDN
- Web Hosting
- and more...

**Integrated Services**

- Paging
- Conferencing
- Customer Premises Equipment
- and more...

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# Products and Services

*ITC^DeltaCom's communication packages cover a wide range of services, from local and long distance services to business communication systems, to dedicated Internet access. All of our products and services come with the same level of commitment to customer satisfaction. We want to satisfy you, which is why we offer such features as customized billing, Quarterly Analysis, and a fully-staffed customer service hotline. In addition, to help insure that you understand what all of these new technologies mean, we have included an online glossary of terms which defines all of the expressions which are used in describing communications services.*

*Business*

*Residential*

<a href="#">What is ITC^DeltaCom?</a>	<a href="#">Products &amp; Services</a>	<a href="#">Newsroom</a>	<a href="#">Carrier's Carrier</a>	<a href="#">Career Opportunities</a>	<a href="#">Contact Us</a>	<a href="#">Guestbook</a>	<a href="#">Site Map</a>
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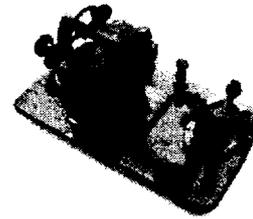
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***Business Services***

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*We recognize that in today's business environment there are many new and old products and services you need to make your business operate efficiently. With a customized group of ITC^DeltaCom services, we can be your one point of contact for all of your communication requirements.*



*Below is a broad list of our current services. For a more complete description, select one or more product(s) and follow the instructions below.*

1. Select the product(s) of interest.
2. Click the "View" button below for a description of selected products.

**Long Distance**

- 1+, Dedicated and Switch
- Toll Free
- Calling Card
- International
- Operator Services

**Data**

- Point to Point (56KB, T1, DS3)
- Frame Relay
- ATM
- ISDN

**Internet**

- Advanced Data Connectivity
- Hosting
- Web Design

View

**Local Service**

**Customer Premise Equipment**

- Business Telephone Systems
- Voice Mail Systems

**Enhanced Services**



- Pre-paid Phonecards
- Conference Calling
- Broadcast Fax



## *A Carrier's Carrier*

Interstate FiberNet (IFN) is the premier regional Southeast United States Carrier's Carrier. Based in West Point, GA, IFN provides various wholesale telecommunication services to other tariffed carriers. These services include dedicated network capacity at the DS-1, DS-3 and OC-n level services on a fiber optic network that stretches from Raleigh, NC to Atlanta, GA and from Atlanta to Miami, FL to the South and Houston and Dallas, TX to the West. IFN also provides Signaling System Seven (SS7), Operator Services, Directory Assistance and terminating service for switched traffic from a network of Nortel DMS switches.



IFN's fiber optic network is constructed primarily along electric utility company right of way and the fiber is contained within the static wire attached at the top of the high power transmission lines that traverse the countryside. This design provides for increased reliability as the right of way provides limited access and the placement of the fiber approximately 60-80 feet above ground minimizes the chances of unintentional disruptions. The fiber optic network is a combination of owned and operated facilities as well as those that we market, manage and monitor for the electric utilities. Current fiber route miles across the Southeast are in excess of 5,000 miles with another 1,200 miles scheduled for completion in 1997-98.

IFN also has a state of the art Operator center located in West Point, GA that provides traditional Operator Services, both live and automated, at the wholesale level to interexchange carriers, telephone companies, wireless carriers, and CLECs. In addition to Operator Services, IFN also provides Directory Assistance utilizing a BellSouth database, thus providing the most accurate database available today for the nine southeastern states. Our SS7 network connections provide coverage for the Southeast and offers interconnection to other carriers as well as parts of the country through key strategic relationships with other regional and national SS7 providers.

**For further information please contact Tom Schroeder [shroeder@deltacom.com](mailto:shroeder@deltacom.com) or 706-645-8990.**

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- Data Services
- Long Distance
- Toll Free Services
- Wireless Services
- Calling Cards
- Equipment & Installation
- Business Solutions
- Billing and Reporting
- Operator Services

## Products and Services

In your area, we offer a long list of products and services, including long distance, wireless, equipment and installation, and Internet access.



- Data Services
- Long Distance
- Toll Free Services
- Wireless Service
- Data Services
- Calling Cards
- Equipment and Installation
- Business Solutions
- Billing and Reporting Services
- Operator Services

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## Products and Services

- Local Telephone**
- Long Distance**
- Toll-Free Services**
- Wireless**
- Data Services**
- Calling Cards**
- Equipment and Installation**
- Business Solutions**
- Billing and Reporting Services**
- Operator Services**

Across the country, we offer a long list of products and services, including local and long distance service, wireless communications, cellular, and Internet Access.

At your option, we can selectively display only products which are available in your area. This will also provide you with the correct customer service telephone number for your area.

**Find Frontier Products or a Customer Service Number in Your Area**

1. Please Enter Your Area Code and Exchange Below.  
(The first six digits of your phone number, including area code.)
2. Click the "Display Products" button after you've entered your area code and exchange.
3. To start over, click the "Clear Form" button.

(  ) -  -xxxx

If you prefer, you're welcome to view our entire product line, but remember, not all products are available in your area. For more information use our contact form.

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**Telephone**

MediaOne Digital Telephone Services is launching local telephone services to consumers throughout the country this year. Customers in the Atlanta, GA, Los Angeles, CA, Jacksonville, FL, Pompano Beach, FL, and Boston, MA areas now have a superior choice for local telephone service because of MediaOne's broadband network which delivers clarity and reliability at a better price.

**Cutting Edge Technology**

What makes telephone service from MediaOne so special? It starts with technology, the cutting edge Broadband network architecture. This communications platform of the future enables MediaOne to simultaneously transmit video, digital telephone service and Internet access at speeds 50 times faster than conventional networks. The Broadband network is comprised of high-capacity hybrid fiber optic/coaxial (HFC) cable which provides bandwidth for today's services. This HFC technology is being deployed worldwide.

**It's included...**

MediaOne Digital Telephone Services meets the same high standards as your local telephone company. We offer several packages with a variety of premium services included for one monthly price. Each package includes lines with up to 17 features so you never miss a call, protect your privacy, and save time. Features include Caller ID, Call Waiting, Call Forwarding, and many more. Telephone service from MediaOne allows you to save time, protect your privacy and never miss a call.

**Savings**

MediaOne Digital Telephone Services offers savings ranging from 22-40% over your local provider's equivalent package, depending on the service. With MediaOne's Broadband network enabling telephone service and other services via one wire, the services are less expensive to deliver, which allows the service to be provided at a lower cost. These savings are passed along to you.

**MediaOne Digital Telephone Services  
Consumer Product Packages and Pricing**

Location	Package/Service		
	Package 1	Package 2	Package 3
Atlanta, GA	\$ 24.95	\$ 35.95	\$ 42.95
Los Angeles, CA	\$ 39.95*	\$ 54.95*	\$ 59.95*
Pompano Beach, FL	\$ 21.95	\$ 29.95	\$ 39.95
Jacksonville, FL	\$ 21.95	\$ 29.95	\$ 39.95
Boston, MA	\$ 26.95	\$ 35.95	\$ 42.95

**Package 1** includes 1 Line Full Featured  
**Package 2** includes 2 Lines – 1 Full Featured and 1 Basic  
**Package 3** includes 2 Lines Full Featured

\* *Los Angeles Packages include 500 minutes of free Local Toll.*

**Introductory Offers**

For residential customers that sign up for MediaOne Digital Telephone Services, we are offering a special introductory offer that includes free installation and a free first month of service.

## Local Telephone Service

In February of 1996 Congress passed a landmark piece of legislation known as the Telecommunications Act. This act allowed businesses to choose their local telephone provider for the first time. When the long distance market was opened to competition it drove down prices, improved network reliability and forced new product offerings. Now, with local telephone competition available, Allegiance Telecom has created a multitude of cost-effective local service products:

### Local Service Features

- Speed Dialing
- Call Waiting
- Call Forwarding
- Caller ID
- Automatic Callback
- Conference Calls
- Discount Metro Calling Plans

### Local Service Products

- DID (Direct Inward Dialing)
- DOD (Direct Outward Dialing)
- Business Lines
- PBX Trunks
- ISDN

***For More Information Call: 1-800-750-1833***

## Long Distance Service

In today's competitive long distance market, selecting the proper plan for your business can be difficult. Allegiance Telecom takes the worry out of choosing the right service. Allegiance offers a complete long distance product platform. In addition, we have created a simple pricing structure and a satisfaction guarantee that includes term-plan protection. And to provide the ultimate in network security, our network has been engineered with the latest technology.

### Features:

- Out Bound Service
- 6 Second Minimum Call Duration
- 6 Second Incremental Billing
- Flat Rate Structure
- Term Plan Protection
- Accounting Codes
- Calling Cards
- Custom Billing Service
- Dedicated T1 Service
- Customer Satisfaction

***For More Information Call: 1-800-750-1833***

## **THE NEW WAY FOR BUSINESS TO CONNECT**

**Local calling. Long distance calling. Data transmission. Internet service. All from a single source, on one bill, with one number to call. That's the pledge from Allegiance -- the new national telecom company built to serve today's business customer.**

### **HISTORIC OPPORTUNITY**

In February of 1996, Congress passed a landmark piece of legislation known as the Telecommunications Act. This act fundamentally changed the telecommunications industry by sanctioning nationwide competition in the local telephone marketplace for the very first time.

Like the historic breakup of the Bell System in 1984, the Telecommunications Act ushered in a new era -- one that promises far greater choice for today's business customers. Instead of a stagnant monopoly, a lively new marketplace has been created, promoting higher service quality, competitive pricing and technological advancement.

### **A NEW KIND OF TELECOM COMPANY**

Allegiance Telecom was born to compete in the marketplace created by the Telecommunications Act. It is a company built for the specific purpose of providing businesses with all of the advantages made possible by this new legislation. In short, this means competitively priced, state-of-the-art telecommunications products, all from a single source.

Not just another service reseller, Allegiance is a facilities-based company that owns its own switch in every market it competes in. Our infrastructure is based on the latest developments in network operations, engineered to provide businesses with cutting-edge products and truly exceptional customer service.

Perhaps our greatest asset and competitive advantage, however, is our management team. Led by telecom pioneer Royce Holland, Allegiance management is composed of a group of experienced professionals who have played an active role in the transformation of the telecommunications industry over the past two decades.



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## Products & Services

If you're like most business owners, you're probably used to little or no personal service with your current telephone company.

At NEXTLINK Communications, we strive to exceed your expectations. Easier said than done; basically, it's our competitive weapon. We're dedicated to a total telecommunications solution that can make a difference in your business.

Every business customer has unique needs that require individual solutions. We know that the right combination of telecommunications products and services provide a business advantage. Local, long distance and other services. And we combine them all with the convenience of one simple bill from a single source.

NEXTLINK Communications. It's what business phone service *should* be.




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## Long Distance and Special Calling Services

[Long Distance](#) | [Special Calling](#) | [Conferencing](#) | [Group Services](#)

*"The sound quality of my long distance calls is superb, and I can't believe how much I am saving with NEXTLINK over my former carriers (AT&T, MCI, and Sprint)!"*

-Rich Chana, President, Consumer Housing Institute

### Long Distance

We're a local phone company that also provides *total* long distance services. Our goal is to deliver *more* than our customers expect at the best possible value available anywhere.

First, there is the quality of sound. Long distance calls are transmitted over high-capacity fiber-optic lines, providing for the highest transmission quality possible.

Our customers also benefit from an integrated billing system that permits customized billing options at no extra charge.

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### Calling Cards & Special Calling Services

#### Toll Free Service (800 and 888 Dialing)

You can enhance your customer service with an 800/888 number. Customers can contact you toll free. They will appreciate the convenience of a toll free number, and may increase your business. These calls are substantially less expensive than collect calls, decreasing your costs.

To help you track costs, you receive an itemized statement at the end of each billing cycle showing the origination phone number of each person who called and the length of each call.

Toll free numbers are programmed to ring into your existing phone lines. They can be business, residential, cellular or even a NEXTLINK Voice Mail box number.

You can request personalized "Vanity" numbers such as 1-800- NEXTLINK through us. These easily remembered numbers are extremely effective and useful as marketing tools. Given the nationwide demand, most new 800 numbers are actually 888 numbers. They work exactly the same.

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### **Conference Calling Capability**

NEXTLINK's conference calling is a cost effective and easy way to communicate with 3 to 100 people at the same time. Use it from any telephone and at any time. We offer 4 types of conference calls:

- **Operator Meet Me** - all participants dial an assigned number at the appointed time.
- **Passcode Meet Me** - all participants dial an assigned number and passcode at the appointed time with no operator involved.
- **1-800 Meet Me** - all participants dial the conference center using an 800 number at the appointed time, saving them any long distance charges.
- **Operator Dial Out** - our conference operator contacts all participants involved to notify them that their call is ready and to place them into the conference.

All of NEXTLINK conference calls are 100% digital. They require no special equipment and work with your existing telephone system. We also provide easy to understand, detailed billing right on your current NEXTLINK bill.

### **Business & Professional Groups Can Benefit from Our Expertise**

NEXTLINK has a division which specializes in serving the needs of Business, Trade, Industry Associations and Affinity Groups. It's called NEXTLINK Affinity.

Properly designed and executed, telecommunications service can be a compelling association benefit. More than 50 associations and affinity groups nationwide have trusted us to realize savings in a highly competitive marketplace.

We can provide everything you need to set up and maintain your business telephony system.

We customize your monthly invoices to include your association name and calling cards to include your association logo.

The advantages of establishing an NEXTLINK Affinity Association Network include:

- Fiber Optic Network
- Six -second billing increments
- 800/888 Service
- Conference Calling
- Account Coding and Management Reports
- Voice Mail
- 1-800 Voice Mail
- Custom Phone Cards Designed Exclusively for Your Association with your choice of graphic design
- Custom Association Billing and Invoicing
- Money Back Guarantee

*"We are extremely satisfied with our relationship with NEXTLINK. Their Call Us First service approach is a shining example of their commitment to continually earn our business. Their service is terrific and their rates are competitive. We highly recommend NEXTLINK and their impressive staff to any association."*

**-Craig Bickmore, Utah Automobile Dealers Association**

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## Dedicated Lines

[Trunks](#) | [Local Trunks](#) | [Direct Inward Dialing](#)  
[Digital Trunk Services](#)

### Trunks

Trunks are specialized, dedicated lines capable of carrying single or multiple voice and data transmissions between two dedicated network entities such as an exchange carrier or PBX.

The NEXTLINK networks include local trunks which are designed to be flexible in order to solve a variety of telecommunication needs. These can include an alternative path to your choice of long distance carrier or connectivity between two switching systems. They are available as analog or digital based upon your particular applications.

#### Analog Trunks

An Analog Trunk can carry voice and data transmission. It is available as single or multiple voice-grade circuits. Service offerings can be customized with respect to transmission speeds, conditioning levels, locations, supervisory controls and signaling characteristics.

#### Digital Trunks

A Digital Trunk can be used for voice, data and video transmissions over a T1 that is interfaced with a PBX or Hybrid Key System. Service offerings are available for dedicated voice and data communications. Our technicians can customize systems to work with various transmission speeds, conditioning levels, locations, supervisory controls and signaling characteristics.

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### Local Trunk Services

Your network infrastructure is the physical foundation that provides the efficient operation of your entire system. We will ensure that your telecommunications system is technologically state of the art *and* dependable. We can help you choose from the mix of analog and digital trunks to customize traffic patterns. The resulting increases in efficiency, value and reliability will surpass your expectations.

#### One-way Outbound Traffic

This allows the user to place outbound calls only.

**One-way Inbound Traffic**

This traffic pattern has the ability to carry inbound traffic only.

**Two-way Traffic**

Users can place outbound calls. The system can carry inbound traffic also. Calls need to be answered by an attendant unless enhanced by Direct Inward Dialing (DID).

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**Direct Inward Dialing**

Convenient, Reliable and YOURS. Direct Inward Dialing (DID) is a special trunking arrangement that permits incoming calls from the exchange network to reach a specific PBX station or other type of phone system without attendant assistance. And since it is a private line, you control the use, distribution and flow of traffic.

Custom features include:

- SONET (Synchronous Optical Network) based network
- Fiber Optic based networks
- Network routing independent of the local exchange company
- Automatic switched back-up power and electronics
- 24-hour, 7-day-a-week network performance monitoring.

**Key Applications**

Connecting to a PBX or other phone system without attendant assistance.

**User Benefits**

- Greater productivity
- Eliminates the need for an attendant
- Permits callers to reach the desired party directly
- Reduces incoming call bottlenecks
- Easy access for callers
- More responsive service.

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**Digital Trunk Services**

Flexible, Dedicated and Fast. Realizing each customer has different needs, NEXTLINK offers two types of digital trunks that are provisioned to meet the unique requirements of your business. The option

of adding special features is available for upgrading your telecommunications system.

**Basic Digital Trunk**

A Basic Digital Trunk carries voice and data traffic at T1 transmission speeds and can provide up to 24 dedicated circuits.

**Enhanced Digital Trunk**

An Enhanced Digital Trunk carries voice and data traffic and can provide up to 24 dedicated circuits. This trunk features the benefits of Primary Rate Interface (PRI) which allows for the addition of Caller ID as an optional feature.

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**Optional Features**

<b>DID 10# Blocks</b>	Blocks of 10 individual numbers intended for use with DID features.	Saves expense by reducing the number of trunks needed to achieve optimum phone service.
<b>Caller ID</b> <i>(available on Enhanced Trunk only)</i>	With Caller ID you can know who is calling before picking up the phone.	Increases productivity and choice in managing incoming calls.
<b>Hunting</b>	If the called line rings busy, this feature automatically searches for an idle station within a specified group of lines and routes the call to the first available station.	Customer calls are always answered; either by an attendant or a recording. This enhances customer relations by providing exceptional service.
<b>Primary Listing &amp; Additional Listings</b>	One Primary directory listing of your company is provided. Additional listings can be added for an additional fee.	Increases marketability and recognition. Additional listings increase productivity by allowing customers to dial desired department directly.



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**N E X T L I N K**

## High Capacity Services

[Overview](#) | [DS0](#) | [DS1](#) | [DS3](#)

### Overview

High-capacity, high-performance and high-speed. When combined with NEXTLINK state-of-the-art equipment, our point to point dedicated services help give customers the competitive edge necessary for success. Available as DS0, DS1 or DS3 services, high-capacity products provide customers with the exclusive use of private transmission channels between two or more locations.

### Features

- SONET (Synchronous Optical Network) based network
- Fiber Optic based networks
- Network routing independent of the local exchange company
- Optional ring configuration offering two diverse routes between network locations
- Automatic switched back-up of power and electronics
- 24-hour, 7-day-a-week network performance monitoring

### Key Applications

- Frequent calls to a distant location
- Long interval data transmission
- Wide-Area-Network connectivity
- Video Conferencing connectivity
- Combined voice / data concentration to a distant location

### Benefits

- Dedicated transmission lines that you control
- Clear signal, free from crosstalk, amplified noise, and distortion, thanks to digital transmission

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### DS0 Service

DS0 is a dedicated private line that has a digital service rate of 64 kilobits per second (Kbps) which is used for voice and low-speed data. Price rates are

based upon end point termination and circuit mileage.

#### **Key Applications**

- Multiple locations seeking off-premise extensions
- Low-speed data services
- Low-to-moderate usage to their long distance carrier
- Video teleconferencing

#### **User Benefits**

- Reliability of NEXTLINK state-of-the-art fiber optic network
- Outstanding speed and capacity
- Virtually error-free performance
- Elimination of costs of maintaining multiple voice, data and image-related applications

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### **DS1 Service**

DS1 service is a high-capacity, high-performance information channel that provides a dedicated private line that has a digital transmission rate of 1.544 million bits per second (Mbps) with a capacity of up to 24 digital channels. Price rates are based upon end point termination, circuit mileage, and state.

#### **Key Applications**

- Connection to interexchange carriers
- LAN-to-LAN connectivity
- Integrated voice and data networking
- PBX networking
- Bulk data transfer
- Interactive computer-aided design
- Distance learning
- Video teleconferencing
- Replacement of multiple analog lines
- Upgrades from digital systems operating at lower speeds
- Mainframe access from remote locations
- Transaction-based tasks, such as billing, reservations, customer service or database access

#### **User Benefits**

- Reliability of NEXTLINK state-of-the-art fiber optic network
- Outstanding speed and capacity
- Virtually error-free performance

- Elimination of costs of maintaining multiple voice, data and image-related applications

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## DS3 Service

DS3 service is a high-capacity, high-performance information channel that provides a dedicated private line that has a digital transmission rate of 45 million bits per second (Mbps) with a capacity of up to 672 digital channels. Price rates are based upon end point termination and circuit mileage.

### Key Applications

- Remote database backup
- Mainframe access from remote locations
- Computer-aided design and manufacturing
- Remote printing, publishing and check sorting
- High-speed host-to-host networking
- Interconnection of Local Area Networks

### User Benefits

- Reliability of NEXTLINK state-of-the-art fiber optic network
- Outstanding speed and capacity
- Virtually error-free performance
- Elimination of costs of maintaining multiple voice, data and image-related applications

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**N E T L I N K**

## Special Data and Video Capabilities

Most businesses have fast growing data requirements.

Data and the new high speed video conferencing services can challenge older telecommunications networks designed just for voice. High Bit Error Rates (BER) can cause a loss of data that forces a re-transmission, or worse - compromises the integrity of the data itself.

Our network is built for handling high-bandwidth requirements. We can tailor it to fit your business.

- First, our representatives "know" data and can help design a flexible system that can help your business grow.
- Second, we planned for high speed data from the ground up. We can deliver data at a variety of transport speeds, reliably, quickly and accurately. Thanks to our fiber optic network backbone and specialized switches, data connectivity can be reconfigured nearly as quickly as you can move the computer.

## Data and Video Offerings

- Start with the Basics. A dedicated Basic Business Line for dedicated facsimile or dial-up modem connectivity
- T1 connectivity - 64 kilobits per second with shared voice / data capability and the capacity of 24 circuits. This is a frequently used transmission system for connecting to PBX or Centrex systems, or to an Internet Service Provider.
- DS0 Service - (Digital Signal Level 0) offers 64 kilobits per second transmission over exclusive, private transmission channels.
- DS1 Service - (Digital Signal Level 1) offers 1.544 million bits per second transmission with a capacity up to 24 circuits.
- DS3 Service - (Digital Signal Level 3) offers 45 million bits per second transmission with as many as 28 DS-1 channels (672 voice and or data circuits).

We will give you the convenience of bundled phone service, one monthly statement and great data service.



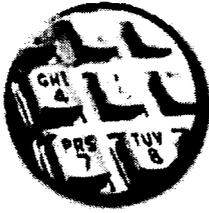
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## Retail Service Offerings

### Local Telephone Services

Business Lines  
Fax Lines  
Modem Lines  
Analog PBX Trunks  
Digital PBX Trunks  
Keyset Trunks

### Special Access Services

#### DS1

Branded Access 1000, this service provides a dedicated access line that can be provisioned between any two locations in a city. Two customer designated premises, a customer premises and a Carrier point of presence, and/or between two long distance Carrier points of presence. The bandwidth available is 1.544 Mbps per circuit.

#### DS3

Branded Access 3000, this service provides a dedicated access line that can be provisioned between any two locations in a city. Two customer designated premises, a customer premises and a Carrier point of presence, and/or between two long distance Carrier points of presence. The bandwidth available is 45 Mbps per circuit.

#### ATM/SONET

This service is available on an Individual Customer basis.

#### LAN/WAN

This service is offered as private network configuration service in order to customize our network to our customer's requirements.

#### FDDI Token Ring

This product is offered as a private network configuration option.

#### Voice Mail

#### Calling Card

#### Debit Card

#### Intrastate Long Distance Service

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ICG Communications Inc.  
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**303-414-5000, or**  
**1-888-424-1144**

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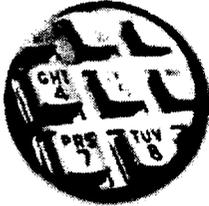
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## Wholesale Products

### Originating Switched Services:

#### Virtual Switch Service (VSS)

VSS is ICG's originating switched services offering that allows your company to migrate into the realm of full switch functionality, without the capital investment. VSS offers customized solutions that allow you to maintain close control of your customer base, substantially lower your costs and choose the network options that work best for your company.

VSS features include:

- ANI Screening & Validation
- PIC Processing
- PIC Verification recording
- Verified and non-verified account codes
- Flexible Routing Options that include routing by dialed number, area code and country code

There are three product options under the Virtual Switch Service umbrella: Standard VSS, Opti-VSS and Open VSS

#### Originating Feature Group D Service

This service is much the same as the RBOC Feature Group service. It is the service vehicle that allows you as a carrier to offer switched long distance services to an ICG dialtone customer. ICG offers this service directly from the ICG local switch.

### Terminating Switched Services:

#### Total Access

Total Access provides long distance companies with additional options for terminating their inter and intrastate minutes of use. All call types: 1+, 700/800/900/0+ & 0- are served. The benefit to using ICG over the RBOC is that ICG covers ALL RBOC areas and can serve as a single meet point for your company. This allows your company to better utilize its trunk capacity, and switch port capacity. Another benefit is network expansion costs; instead of having to place orders to several companies, or many tandems, with ICG there's only ONE company, only ONE interconnection. There are two Total Access products available:

**LATA-Wide:** Allows a carrier to connect one time in each LATA that ICG offers coverage in.

**State-Wide:** Allows a carrier to connect at one point of interface to terminate all minutes of use for the designated state. (scheduled offering availability: 3/1/97)

#### Access VT

AccessVT is an ICG service that provides another option for a carrier's terminating minutes of use. The benefit of AccessVT is that ICG allows for DS0\* subscription rates to an End Office. ICG guarantees the throughput based on the subscription rate contracted by the carrier. If ICG has open circuits available and the carrier's usage burst over the subscribed bandwidth, ICG would complete the calls for the carrier. When the carrier's usage continually breaks the initial bandwidth subscription rate, ICG will reconfigure the customer's network to fit their requirements. Today, AccessVT is available on a LATA-wide termination basis only.

**Terminating Feature Group D Service**

This service is the terminating side of the ICG Feature Group D service. It allows a carrier to terminate calls to ICG dialtone customers. This service is available as a meetpoint service or a carrier can be directly connected to the ICG 5ESS local switch.

**Local Telephone Service:**

Business Line  
Analog PBX Trunks  
Digital PBX Trunks  
DS1 ISP Trunk Service

**SS7 Service**

ICG offers SS7 in a unique relationship with SNET services. Carriers simply order 56K A or D links to any one of several network entry points; or they may order turnkey services whereby the entire link provisioning is done for you and your company. ICG handles the rest, through the testing with your company.

**Special Access Services**

ICG utilizes new fiber optic networks; we offer significant quality enhancements over the traditional phone company. Fully diverse routing, SONET ring architecture and Self-Managed Alternate Route Transport guarantees against ring failure. ICG guarantees its fiber optic network services.

**DS1**

Branded Access 1000, this service provides a dedicated access line that can be provisioned between any two locations in a city: two customer designated premises, a customer premises and a carrier point of presence, and/or between two long distance carrier points of presence. The bandwidth available is 1.544 Mbps per circuit.

**DS3**

Branded Access 3000, this service provides a dedicated access line that can be provisioned between any two locations in a city: two customer designated premises, a customer premises and a carrier point of presence, and/or between two long distance carrier points of presence. The bandwidth available is 45 Mbps per circuit.

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ICG Communications Inc.

Telecom Group

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**1-888-424-1144**



- Service & Rate Guarantees**
- Local Service
- Long Distance Service
- Enhanced Service
- Applications

## Innovative Products and Services

Staffed with creative problem solvers, US LEC develops and delivers innovative telecommunications products to our clients. Rapid deployment of new technologies, customized services for diverse applications, and highly competitive pricing give US LEC customers the competitive edge. Our customers benefit from an array of local, long distance and special calling services which US LEC provides. We work diligently to identify and analyze our customers' requirements, then develop the best solution that addresses the specific requirements. Find out more about US LEC products, including business applications at work today, vertical market applications for the hospitality and ISP industries, and specific product dialing instructions.

Service and Rate Guarantees	Applications
Local Service	Enhanced Services
Long Distance Service	

## Service & Rate Guarantees

The Service & Rate Guarantee is a two-part program in which US LEC will guarantee both 100% customer service satisfaction and the best available rates. Customers will be allowed to terminate their contracts if they are unsatisfied with the quality of the US LEC network or the sales and support staff. In addition, US LEC will reimburse unsatisfied customers to switch back to their previous carrier. Reimbursement can amount to thousands of dollars.

US LEC also will guarantee its rates so that if there is a reduction, customers automatically will benefit from the new rate. Certain restrictions will apply, as noted in customer contracts.

US LEC is the first competitive local exchange carrier (CLEC) to provide such guarantees to its customers. The Service & Rate Guarantees plan is a part of the company's continual effort to provide service options that are unique, and to promote flexibility and choice within the telecommunications industry. US LEC's ability to offer these guarantees is the direct result of industry-leading sales, provisioning and service capabilities.

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## Local Service

Since 1996, US LEC has provided its business clients in North Carolina with competitive, reliable local phone service. We continue to enter new markets in the Southeast so more businesses can take advantage of the reliability and quality of the US LEC network.

Local Network Access (Dialtone)	Account Codes
Local Calling	Network Features

Local Calling	Network Features
Local DID Service	Directory Listings
911, Directory Assistance & Operator Services	

### Local Network Access (Dialtone)

Our local network access provides a high-quality, clear voice or data business line. Giving businesses the ability to secure the minimum number of lines necessary, but also the ability to expand service and add features as they grow, US LEC meets our clients' immediate and long-term calling needs.

In many cases, customers can switch their existing service to US LEC and retain their existing telephone numbers.

Local network access is available in two types:

- T1 Access
- Channel Access (DS0).

Multiple local access services are available for either type of access:

- Business Lines
- Data Lines
- Key Trunks
- PBX Trunks
- Foreign Exchange

The US LEC network is comprised of a variety of trunking configurations, enabling single and multiple voice and data transmissions between two network elements. Our local trunks offer connectivity flexibility, so our clients can customize specific traffic patterns based on their needs, such as one-way outbound calling only or two-way calling.

### Local Calling

US LEC completes local calls over its state-of-the-art all-digital network. US LEC Local Calling provides:

- Local Calling area coverage identical to the traditional telephone company
- Extended Area Calling
- Foreign Exchange

US LEC also offers enhanced rate plans to the hospitality industry.

### Local DID Service

US LEC's DID trunks provide for greater user productivity by eliminating the need for assistance, reducing incoming call "traffic jams" and offering the caller a speedy connection to the desired party.

DID trunks are used in conjunction with an end-user's PBX, so calls are directed by the PBX directly to an extension number. Traditional T-1 DID and Traditional Analog DID trunks deliver only incoming calls to the end-user. US LEC's two-way DID service provides the same ability to direct incoming calls to our clients' PBX extensions, but also allow for outgoing calls to originate on the same trunks.

### Account Codes

US LEC offers our clients the ability to identify and track local and long distance calls by user and department using Account Codes, so they can easily review all calling records and charge back costs to

department using Account Codes, so they can easily review all calling records and charge back costs to specific departments. Our customers enjoy two types of Account Codes, both giving them the same tracking capability; however, with Verified Account Codes the customer can require that a certain account code is entered. US LEC is quite unique in its ability to offer the Account Code feature on local calling.

Why are Account Codes beneficial? The most common applications include:

- Match telephone usage charges to particular users and/or projects
- Restrict to authorized users the ability to make chargeable calls

Account Code users configure their lines or trunks to prompt for codes in two ways: All Calls or just 10-Digit Calls. The US LEC invoice summarizes the number of calls and minutes for each Account Code, which can then be tracked to an individual or department.

## **Network Features**

With expert Account Executives working individually with its customers, US LEC can unleash the power of the state-of-the-art telecommunications network to work for the customer. US LEC offers a powerful array of network features, including CLASS, custom tailored to fit individual customer requirements, at competitive rates. The individual attention customers receive from US LEC makes it easy; the US LEC network, with its Lucent 5ESS® AnyMedia™ switches, makes it possible.

## **Directory Listings**

US LEC provides for its customers business listings in both the white and yellow page phone books of the local incumbent telephone company, making it easy for customers to switch existing service to US LEC's state-of-the-art network.

### **911, Directory Assistance & Operator Services**

All US LEC customers receive access to the Emergency 911 network, to Local Directory Assistance, and to Operators, who can assist customers as customers require.

**Back to Local Service**

**Back to Products**

## **Long Distance Service**

US LEC customers benefit from the highest sound quality over the US LEC state-of-the-art network. As an added benefit, we also bundle local and long distance services to maximize use of customers' existing access facilities, and to provide a single, consolidated invoice for all calling.

US LEC provides traditional 1+ long distance dialing to its clients in its new Metro Connect Long Distance calling Plan, which includes;

- IntraLATA (Local Toll)
- Intrastate (In-State)
- Interstate (Out-State)
- International calling to over 230 countries

By integrating local service and long distance service and not drawing distinctions between the two, US LEC provides customers with additional economies of scale. Unlike many other carriers, US LEC aggregates our customers' monthly recurring charges, local usage charges and long distance usage

aggregates our customers' monthly recurring charges, local usage charges and long distance usage charges to help our customers reach higher commitment levels, thus qualify for lower rates. All services are billed on a single, consolidated invoice.

Long Distance Network Access	Metro Connect Calling Plan
Toll Free Service	Account Codes
Directory Assistance & Operator Services	

## Long Distance Network Access

Long Distance network access is done over the same high-quality access lines used for access to the local network. By using a single access connection for both local and long distance calling, customers can realize additional economies of scale, in addition to the simplicity this provides to customers' networks.

US LEC has just introduced its new Metro Connect Long Distance Plan. Metro Connect is a vastly simplified long distance plan that makes no distinction between switched and dedicated access and offers reduced rates throughout the Southeast.

Because US LEC consolidates customers' local and long distance calling, customers who previously could not justify dedicated access are using US LEC's dedicated access plans.

Giving businesses the ability to secure the minimum number of lines necessary, but also the ability to expand service and add features as they grow, US LEC meets our clients' immediate and long-term calling needs.

## Metro Connect Long Distance Calling Plan

US LEC's new Metro Connect Long Distance Calling Plan offers increased convenience and substantially discounted rates to customers. This new plan means more savings to customers who historically were not able to take advantage of a direct connection to their long distance carrier. Metro Connect provides:

- A simplified plan with no distinction between switched and dedicated rates
- Metro Calling - Metro Calling is designed to take advantage of US LEC's extensive backbone network in North Carolina, Tennessee, Georgia, and Florida by offering our large business clients reduced rates to major metropolitan cities and surrounding areas. These cities include Charlotte, Raleigh, Durham, Greensboro, Asheville, Memphis, Nashville, Knoxville, Atlanta, Orlando, and Miami. Metro Calling offers:
  - Discounts below your interstate and intrastate rates
  - Increased access - an important part of your Southeast business
- International Service via World Connect. Optional International plans for calling around the world.
- Available to all US LEC local customers on 1-year, 2-year and 3-year terms.

## Toll Free Service (800/888/877)

- Provides nationwide origination for Toll Free Service
- Extends our reach to customers and clients throughout the US and Canada
- Optional easy-to-remember vanity numbers
- Optional National Toll Free Directory listings
- Maximizes use of customer access facilities, reducing costs
- Can be combined with other US LEC services for volume pricing
- Billed on same invoices as other US LEC services

## Account Codes

## Account Codes

US LEC offers our clients the ability to identify and track local and long distance calls by user and department using Account Codes, so they can easily review all calling records and charge back costs to specific departments. Our customers enjoy two types of Account Codes, both giving them the same tracking capability; however, with Verified Account Codes the customer can require that a valid account code is entered. US LEC is quite unique in its ability to offer the Account Code feature on local calling.

**Why are Account Codes beneficial?** The most common applications include:

- Match telephone usage charges to particular users and/or projects
- Restrict to authorized users the ability to make chargeable calls

Account Code users configure their lines or trunks to prompt for codes in two ways: All Calls or just 10-Digit Calls. The US LEC invoice summarizes the number of calls and minutes for each Account Code, which can then be tracked to an individual or department.

## Directory Assistance & Operator Services

US LEC provides its customers with Long Distance Directory Assistance for access to numbers nationwide and access to Long Distance Operators, who can assist customers as they require.

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## Enhanced Services

In addition to local and long distance services, US LEC has developed some creative solutions for specific calling situations and markets.

[Internet Value Service](#)

[Voice Mail](#)

[ISDN Primary Rate Interface \(PRI\)](#)

### Internet Value Service

US LEC provides its T-1 customers who have additional bandwidth available with access to approved Internet Service Providers (ISPs). The Internet Value Service is available to US LEC customers using our local service; is available in 56K/64K increments, up to 768K; and, provides our customers with low cost internet connectivity. Currently, the service is available in Charlotte, Raleigh, Durham, and Greensboro, NC; Atlanta, GA; Knoxville, Memphis and Nashville, TN; and Orlando Florida.

**Customers who enroll in Internet Value Service enjoy many benefits:**

- Greater efficiencies by using their existing T1 access for multiple services
- Higher-speed access to the internet
- No waiting for lengthy dial-up connections
- Choice of multiple ISPs; customers can choose from many providers whom US LEC has certified on the network

### Voice Mail

Voice Mail is an automated voice system that works with existing business lines, and allows users to

Voice Mail is an automated voice system that works with existing business lines, and allows users to send, receive, store and forward voice messages to one or more voice mailboxes. US LEC Voice Mail service:

- Is designed as an alternative to PBX-based voice mail systems
- Works with existing business lines and equipment - no need to replace what customers already have
- Is available in several packages - Silver, Gold, Platinum, Platinum Expanded and Menu Service.

Our voice mail features include customized user greeting, customized security pass code, long-term message storage, message forwarding, group messaging, digital pager notification, call forward/busy, and transfer to operator. Service is available where US LEC local services are available.

## Voice Mail User Guide

### ISDN Primary Rate Interface (PRI)

US LEC provides the Integrated Services Digital Network (ISDN) - Primary Rate Interface (PRI) for both voice and data transport. This access service is designed to take advantage of advanced digital services such as Automatic Number Identification (ANI) delivery. ANI delivery passes the calling phone number to its destination. Our service works with the ISDN equipment installed at the customer premise.

ISDN PRI is configured with 23 "bearer" channel (B channels) which can transport voice or data calls. An additional 24th channel (D channel) delivers information about the call, such as the ANI.

Channel 1-23	Channel 24
Bearer (Voice or Data)	Call Information

[Back to Enhanced Services](#)

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## Applications

US LEC customers vary, as do their telecommunications requirements. Our customer base is comprised of businesses from many different industries, so we tailor our products to meet diverse applications.

Hospitality Industry	Dual DID Numbers
Call Transfer	3-Way Calling and Call Hold

### Hospitality Industry

US LEC offers this industry segment a cost-effective solution by enabling our customers to expand their network capacity easily and cost effectively. Since PC and voice mail usage frequently results in their guests experiencing outbound call blockage, these businesses often require upgrades to handle the increased usage. Additionally, we offer an expanded free calling area and commissions on outbound 800 calls, thus extending lower rates and incentives to this strategic business market.

Our sales and customer service representatives receive specific training to serve this industry, and as such, are particularly knowledgeable about telecommunications applications that best meet these requirements.

## Dual DID Numbers

Some businesses prefer some call completion diversity to feel confident in the reliability of their ongoing communications. US LEC can design a solution to meet this specific requirement.

### Call Transfer

Typically a benefit to Key System users, US LEC's Call Transfer service is unlike other call transfer products on the market. The called party can transfer the caller to another number, either on-site or off-site. The other number could be:

- A service location
- A supplier technical center
- Even a voice mailbox

Using US LEC's Call Transfer feature can significantly improve both the functionality and the costs of supporting voice mail, calling cards, and traveling employees.

And with US LEC's service, initiating the transfer requires only one key trunk, and after the call is transferred, the key trunk is available for other calls. This allows customers the ability to get more done with the phone system they already have, postponing expensive phone system upgrades.

### 3-Way Calling and Call Hold

Key System users commonly experience call blockage resulting from multiple trunks being used to handle 3-way calling and call hold functions. As a result, many users must purchase a new system to handle increased usage. US LEC's 3-Way Calling service allows a 3-way call to be initiated, with a higher quality connection, while using only one key trunk. Call Hold service allows the called party to place the caller on hold in the network, rather than on another trunk, thus saving network capacity for other business calls.

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**WinStar Wins 1998 Arthur Andersen Best Practices  
Award for Unleashing the Power of Technology**

# **WINSTAR**

The New Phone Company™

**Welcome to WinStar**  
The New Phone Company

WinStar Communications, Inc. is a national local communications company serving business customers with local, long-distance and information services. The company also serves long-distance carriers, fiber-based competitive access providers, mobile communications companies, local telephone companies and other customers with broadband local communications needs.



Are you on the list? [Click here.](#)

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## **CARRIER SERVICES**

As a national local communications company, WinStar offers Carriers a number of services to expand and grow their business:

- Use of WinStar's Wireless Fiber<sup>SM</sup> service technology to extend your existing network
- Opportunity to resell WinStar's local services nationwide.

## **WIRELESS SERVICE TO EXTEND YOUR NETWORK**

Most local, long distance and mobile telephone carriers have extensive regional networks, but they do not always have the fiber capacity into buildings needed to provide sophisticated, high-quality telephone services and Internet access. The high cost of providing this "last mile" capacity makes carriers very selective about which buildings receive fiber access. WinStar's Wireless Fiber<sup>SM</sup> service offers a flexible and profitable alternative that can supply the capacity to meet increased demand, swiftly fill a backlog of orders, or simply save you money.

WinStar's Wireless Fiber service means carriers now have a quick and cost-efficient solution for:

- extending the reach of an existing fiber ring
- providing local transport
- serving as the primary link between buildings in a private network application
- interconnecting cell sites in PCS/Cellular networks
- adding route diversity (alternative path routing) or backups in any of these applications
- bandwidth capable of handling voice, data and video applications.

Additional benefits for carriers include:

- extending your networks to new buildings
- reducing your time to market
- increasing capacity
- optimizing your working capital

## **Proven Technology**

In 1996, WinStar passed a number of rigorous technology trials conducted by the largest telecommunications companies in the United States. WinStar's Wireless Fiber<sup>SM</sup> service operates with performance characteristics equivalent to optical fiber and superior to copper and coaxial cables. It is an excellent technology to use for many applications. This positive review by our peers in the industry is the best testament to the quality of WinStar's technology and operations.

Wireless Fiber service delivers:

- 10-13 bit error rate (unfaded)
- 99.999% availability up to 1.5 miles line-of-sight from the hub
- Point-to-point links can support a DS3 or 28 DS1's

## **The WinStar Wireless Fiber Network**

WinStar's network is built on a faster and more cost-efficient alternative to fiber-optic cable —

WinStar's network is built on a faster and more cost-efficient alternative to fiber-optic cable — our Wireless Fiber network. Conventional fiber-optic cables, encased in large protective pipes, provide high speed transmission of voice, data and images. These pipes are buried in the ground, under streets and sidewalks, to provide service to individual buildings.

WinStar offers the same capability without digging up the streets. And our Wireless Fiber service can be installed quickly. All it takes is a pair of one-to two-foot diameter antennas aimed at each other atop roofs or in windows. These devices are then linked through a "hub-and-spoke" network to WinStar's own local switching center or to an existing fiber-optic network already in the ground.

WinStar's network uses wireless transmissions in the 38 GHz frequency band. With licenses in more than 160 major markets, including all of the top 50 cities, WinStar's network will cover more than 60% of America's small to medium-sized businesses. Currently, over 8,000 buildings without access to broadband telecommunications services have been targeted.

## **LOCAL NETWORK RESALE OPPORTUNITIES**

Whether you are currently reselling local service from the RBOC or want to provide local phone service to your customer base as a new product offering, WinStar may be the partner you're looking for.

WinStar has already built a national network in markets with the highest concentration of small to medium-sized businesses and we are open to reseller business. We offer our state-of-the-art local switching and transmission services, high-bandwidth Wireless Fiber<sup>SM</sup> services and robust back office support to resellers. You'll enjoy a single, consistent, dedicated interface with consistent processes from WinStar across the major U.S. markets with discounts substantially greater than current RBOC wholesale tariffs.

As a reseller, you are responsible for your own selling, branding, billing, collections and all end-user interfaces. WinStar provides the network and the support necessary for you to market a competitive program. Reselling with WinStar can launch you as a competitive local service provider and a leader in today's evolving telecom market.

### **A partnership designed to grow your business**

Time is an essential commodity in the dynamic local telecommunications market. Can you afford to wait to gain local market share? Partnering with WinStar will provide the services and network you need, the customization that will differentiate you and the pricing to make you successful. Here's how WinStar Carrier Sales & Marketing can vault you into the competitive marketplace:

- Leverage your brand name to achieve wholesale success
- Reduce time to market. Cut your time to enter new markets while extending reach into existing markets
- Promote capital efficiency by acquiring significant capacity with positive financial impact
- Optimize infrastructure to "pinpoint accuracy" network design and deployment
- You control your customer base and own the "last mile"

The time to enter the local market is now. We invite you to partner with WinStar and obtain the market niche that is knocking at your door. See things from a phone company you've never seen before.

## Business Services

# WinStar,

The New Phone Company™  
can offer all of the phone  
services your business needs,  
resulting in lower prices and  
easier management for you.



Choose any of our growing list of services, including local, long distance, Internet, information services and more. We'll customize them just about anyway you like. But we're certain that once you see the advantages of our customer-focused approach, you'll want to make WinStar your single source for all your phone services.

Each month, you receive just one, easy-to-read statement for all your WinStar services. When you have a question or request, you only have to call one place. Now that's convenience.

- The complete range of local calling services that your business needs.
- Long distance service and features with the same superb quality of other national long distance companies.
- Complete Internet services to help you develop and carry out the best Internet strategy for your company.
- WinStar Business InfoCenter at [www.winstar.com/infocenter](http://www.winstar.com/infocenter).
- Customer Satisfaction representatives available to assist you 24-hours a day, seven days a week.

### **Customer Satisfaction**

There's just no substitute for personal service. Instead of an automated answering system, at WinStar, you'll find real live human beings to assist you. People who handle anything and everything with efficiency and grace, twenty-four hours a day, seven days a week.

### **Consistently Lower Prices**

WinStar customers are seeing a consistent savings, month after month. A typical business can save 25% of what it was paying each month to the old phone company. And our simple, flat-rate long distance prices are significantly less than other national long distance companies.

So the bottom line is, you'll get significant savings, sacrifice nothing in reliability, quality and clarity and gain everything in the way of customer service.

### **Local Calling Service**

With WinStar, you benefit from all of the standard features you're used to, like directory assistance, flexible local calling plans and 911 emergency calling. In addition to business lines, WinStar offers

trunks and digital T-1 service for customers with PBX (Private Branch Exchange) equipment on premise. And for growing companies without a PBX , Centrex is an attractive option that provides a long list of features without having to buy or maintain additional equipment.

WinStar packages include the most requested features. Your WinStar Account Executive will meet with you to learn about your business and recommend exactly the right local service package for your business. You'll get all the features you're used to, and you may learn about a few new ones that could save you money or enhance your business.

Return Call, Repeat Call, and Call Trace can also be selected on a per use basis.

<b>Basic Line Package</b>  <b>(Available To All Customers)</b>	<b>Features</b>
Basic Line	Hunting, Touch Tone, 900/976 Blocking

<b>Business Line Feature Package (Available To Business Line Customers Only)</b>	<b>Features</b>
Enhanced Line	Call Forwarding Variable, Call Forwarding Don't Answer, Call Forwarding Busy, Call Waiting, Three Way Calling, Speed Call 30 Number, Distinctive Ring Two Numbers, Call Transfer
Deluxe Line	<b><i>Includes all of the Enhanced Line features plus:</i></b> Distinctive Ring Three Numbers, Caller ID, Return Call, Repeat Call, Priority Call, Selective Call Acceptance, Selective Call Rejection, Call Trace, Selective Call Forwarding, Anonymous Call Rejection

<b>Centrex Feature Package</b>  <b>(Available To Centrex Customers Only)</b>	<b>Features</b>
Centrex Enhanced	Call Forwarding Variable, Call Forwarding Busy, Call Forwarding Don't Answer, Call Hold, Call Pick-up, Directed Call Pick-up (barge-in), Three-Way Calling, Call Waiting, Intercom, Speed Call 30 Number, Automatic Call-Back, Group Speed Call, Call Park, Call Transfer
Centrex Deluxe	<b><i>Includes all of the Centrex Enhanced features plus:</i></b> Distinctive Ring Two or Three Numbers, Caller ID, Return Call, Repeat Call, Priority Call, Selective Call Acceptance, Selective Call Forwarding, Selective Call Rejection, Call Trace, Anonymous Call Rejection

### Long Distance Service

WinStar provides switched and dedicated long distance services worldwide. Rely on us for simpler, more convenient service, with no compromise on quality. Plus, we provide a wide range of long distance features, such as toll-free calling and account codes, that help you increase sales, enhance your company's image, and boost customer satisfaction. WinStar supplies the same quality and reliability you expect from other national long distance companies, only at consistently lower prices.

Long Distance services include:

- Long distance calling plans
- Account Codes
- Enhanced Routing Features
- Calling Cards
- Toll Free 800/888

### Internet Services

The Internet has become a strategic resource for business, one that demands dedicated, high-speed access. WinStar provides the knowledge and support you need to take full advantage of the Internet as a productivity tool for your business. Our specialists will work with you to develop a practical Internet strategy that's right for your business goals. Soon, your company will benefit from powerful Internet capabilities such as e-mail, information searches, and website applications.

WinStar offers two options for quick Internet access:

**Private Connection** gives you the ultimate in performance and reliability. You will have point-to-point direct Internet connection from your business to the WinStar Internet network. It is 100% dedicated to your company and guarantees complete availability with high speed access.

**Shared Connection** is ideal for companies needing high speed Internet connection and

maximum cost efficiency. You get the capacity to perform larger functions with the cost advantage of sharing a common connection, with multiple users, to the WinStar Internet network.

Internet services include:

- Dedicated Access
- Web Hosting
- Security Solutions

### **WinStar's Business Service Rolls Out**

WinStar is offering an alternative for local phone service in the top 30 markets in the United States by the end of this year. WinStar's local telephone services will reach New York, Chicago, Los Angeles, Boston, San Diego, Newark, Washington, D.C., Dallas, Fort Worth, Atlanta, Houston, Minneapolis, San Francisco, Tampa, Philadelphia, Kansas City, Baltimore, Columbus, Seattle, Denver, Phoenix, Milwaukee, Stamford, Miami, Detroit, St. Louis, Cleveland, Oakland, Orange County, Calif., and Oak Brook, Ill. Contact our customer satisfaction representatives to find out when service will be available in a particular city.

### **Who To Call Now For Information**

To set up an appointment with a WinStar account executive call 1-888-WINSTAR. Or send us an e-mail by selecting [Contact Us](#). And get ready to see things from a phone company you've never seen before.

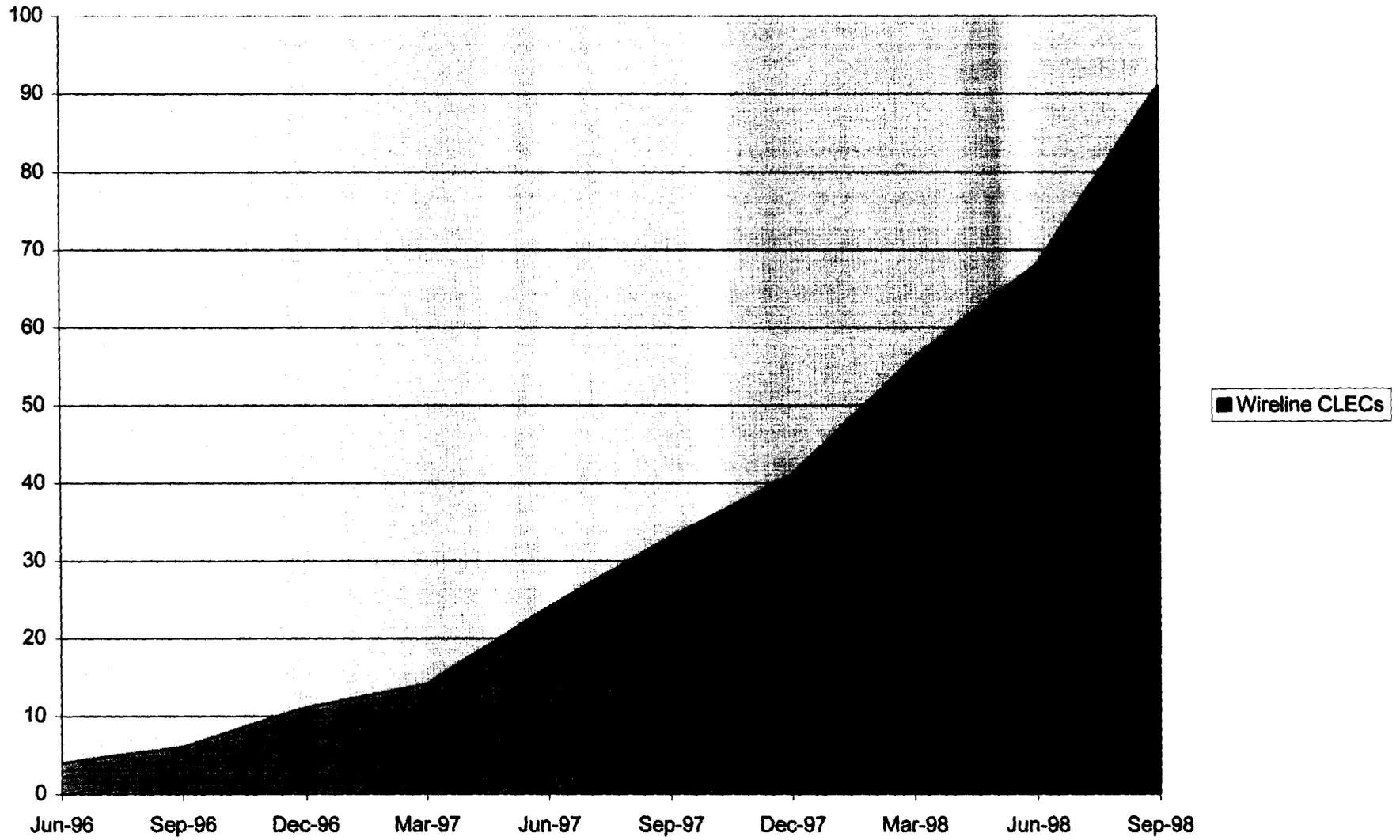
**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT E**

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### Facilities-Based Wireline CLECs Growth in BellSouth



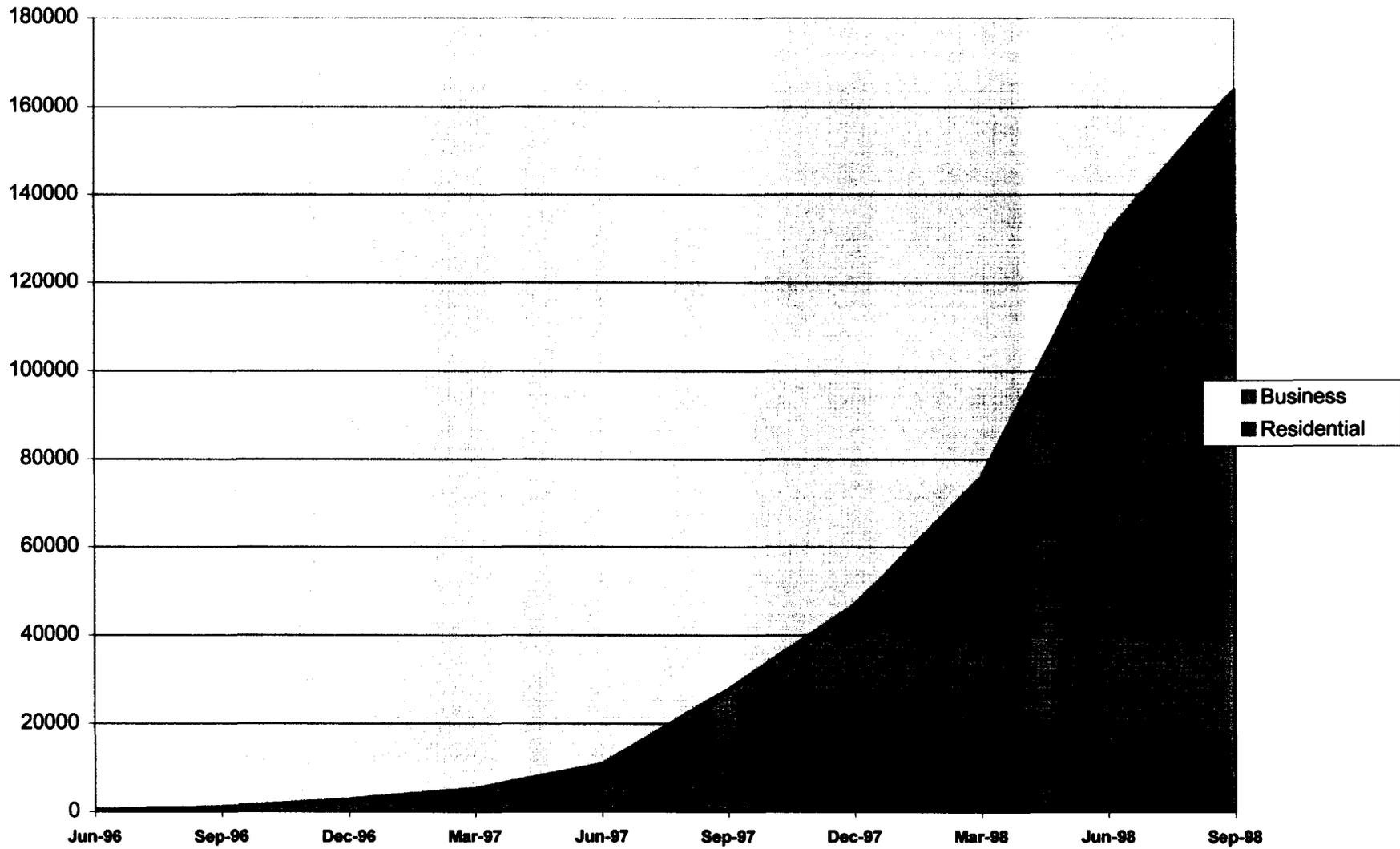
**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT F**

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**Facilities-Based CLEC Wireline Local Exchange Service Line Growth in BellSouth**



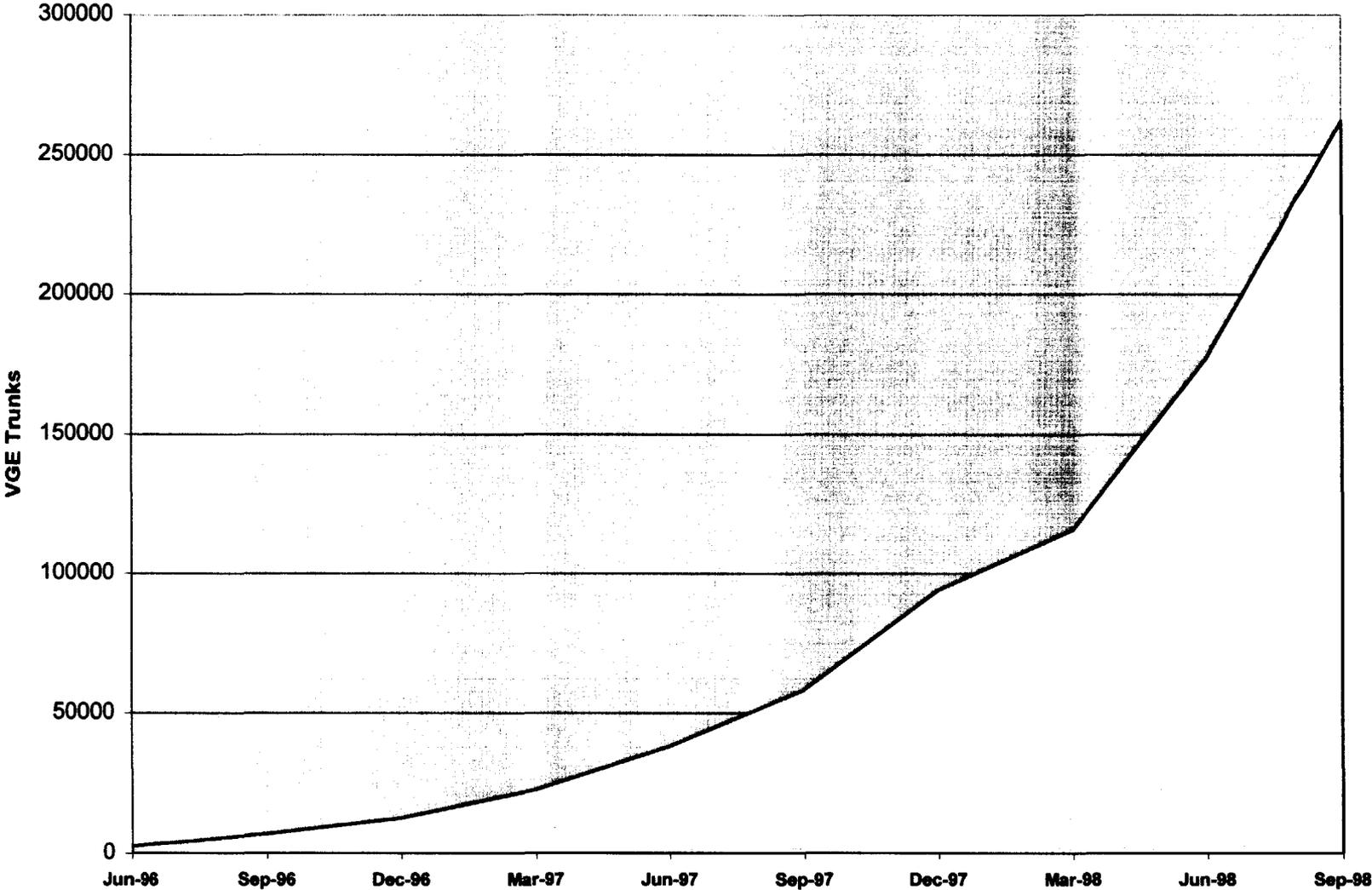
**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT G**

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### Local Interconnection Trunk Growth In BellSouth

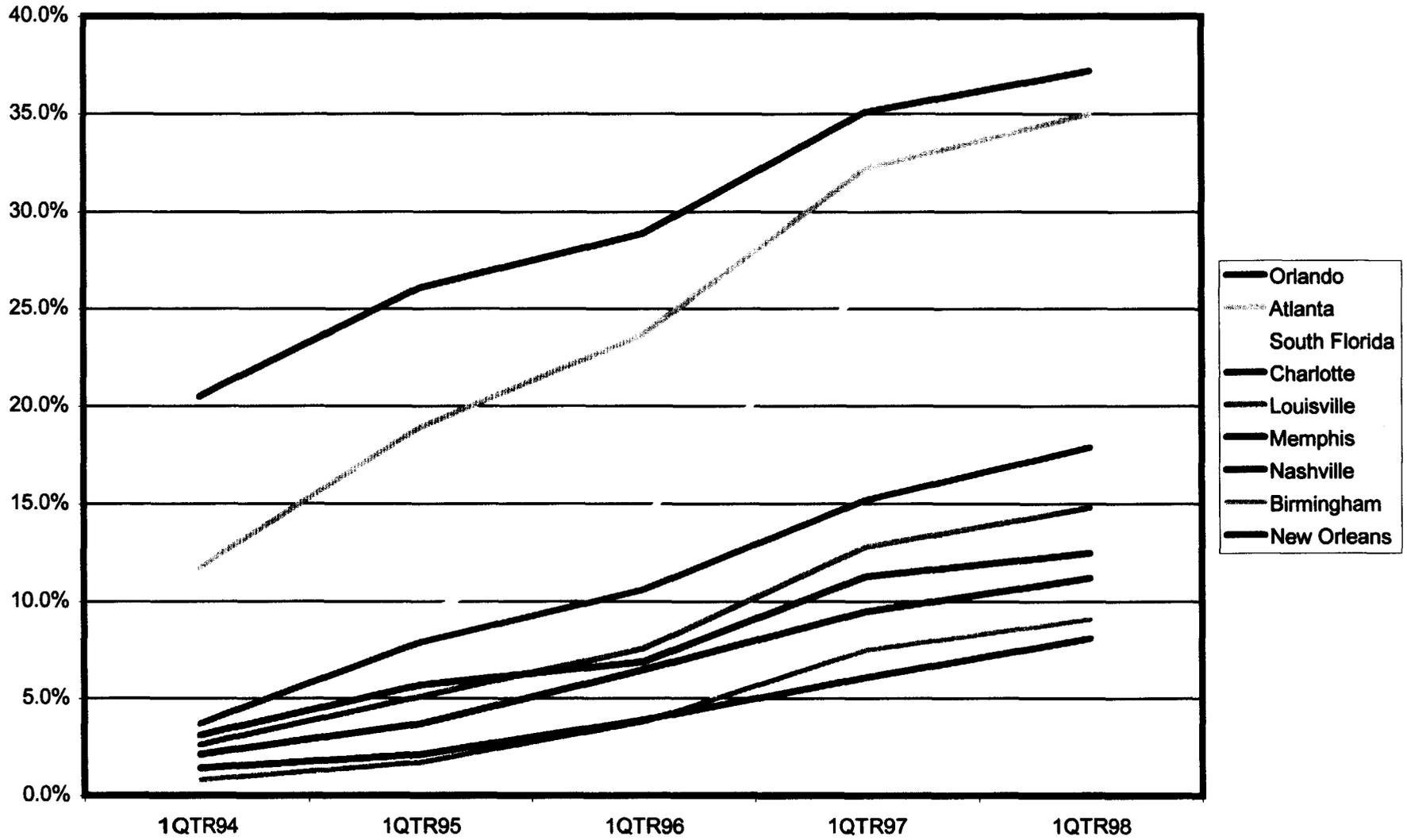


**THE STATUS OF COMPETITION IN THE BELLSOUTH REGION**

**ACCESS AND LOCAL EXCHANGE SERVICE MARKETS**

**EXHIBIT H**

### CAP Wireline HICAP Marketshare in Key BellSouth Markets



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