

Federal Communications Commission
Washington, DC 20554

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January 5, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dale (Zeke) Robertson
Senior Vice President
SBC Telecommunications Inc.
1401 I Street, N.W.
Suite 1100
Washington, DC 20005

Re: CC Docket No. 98-141
Request for Documentary Material

Dear Mr. Robertson:

As a follow-up to presentations to the Commission by SBC Communications Inc. ("SBC") regarding SBC's proposed merger with Ameritech Corp. ("Ameritech"), the Common Carrier Bureau staff requests the supplemental information listed below.¹ These requests for information and documentation are intended to assist us in considering your application for Commission approval of the proposed transfer of control to SBC of licenses and authorizations controlled or requested by Ameritech or its affiliates or subsidiaries. These requests extend to SBC and its affiliates and subsidiaries, and cover all forms of documentation, including all electronic versions and any copies with notations. In order to expedite consideration of your application, please respond to the following requests pertaining to this proposed merger by January 29, 1999.

When responding to the following document requests, please ensure that all documents specify the date on which they were generated. In addition, when producing the documents to the Common Carrier Bureau staff, please categorize the documents in such a way as to indicate which of the following requests a given set of documents is intended to satisfy. For example, all documents responding to Question 1 should be so marked and separated from the sets of documents responding to subsequent requests.

¹ The requests for information relate primarily to the National-Local Strategy to provide facilities-based telecommunications services in each of the top 30 major U.S. telecommunications markets outside of the applicants' in-region areas. Merger of SBC Communications Inc. and Ameritech Corporation, Description of the Transaction, Public Interest Showing and Related Demonstrations (filed July 24, 1998) ("Description of the Transaction") at 5.

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Demand for End-to-End Telecommunications Services

1. The Joint Opposition of SBC Communications Inc. and Ameritech Corporation to Petitions to Deny and Reply to Comments (filed Nov. 16, 1998) ("Joint Opposition") states that large business customers demand seamless, bundled, end-to-end telecommunications services on a national and global scale.²

(a) Please provide all documents in your possession regarding the demand patterns of, or telecommunications and information services purchased by large business customers.³ Please include any independent market research studies (other than the Yankee Group study provided to Commission staff on December 18, 1998) of business customer demand and spending patterns for telecommunications and information services.

(b) Please provide all documents in your possession (exclusive of request-for-proposals ("RFP") materials),⁴ regarding how any current perceptions that large business customers have about SBC's ability individually to provide service out-of-region would change as a result of the merger with Ameritech. Include any documents concerning how large business customers might respond to approaches by SBC or Ameritech individually in the 15 out-of-region markets outlined in Dr. Carlton's affidavit.⁵

(c) Please describe and provide all documents concerning SBC's post-merger short and long-term strategy with regard to the provision of interLATA service associated with the National-Local Strategy. With respect to the provision of such interLATA service, please explain and provide all supporting documents concerning whether SBC post-merger intends to deploy its own facilities or resell the services of other carriers.

(d) Please provide a list of all carriers that, to SBC's knowledge, currently offer and market to business customers the type of end-to-end service that SBC intends to provide under the National-Local Strategy. To the extent that SBC has such information, please state the estimated percentage of SBC's and Ameritech's customers that have been lost to these competitors.

(e) Please provide all documents in your possession regarding the extent to which

² See Joint Opposition at 2-4 & n.4.

³ In responding to this question, please note that in Question 5(a) below we request information about the total annual telecommunications expenditures of the top 224 Fortune 500 companies located in the combined SBC-Ameritech region.

⁴ See Question No. 2 regarding RFP materials.

⁵ Description of the Transaction, Affidavit of Dennis W. Carlton ("Carlton Aff.") at 18 (Table 1).

businesses own the facilities contained in their private or intracorporate networks. In addition, please provide any documents in your possession regarding the extent to which business customers rely on in-house telecommunications experts/managers for the purchase and management of services and facilities associated with their intracorporate networks.

2. The Description of the Transaction states that SBC and Ameritech have concluded that "we need to be everywhere our customers are, and be able to provide [our customers] with the latest technologies, features and common suites of services at all of their locations."⁶

(a) Please provide copies of all RFPs in your possession from existing or potential business customers that would indicate the types of networks and services that these customers demand.

(b) Please provide any RFPs concerning the provision of telecommunications and information services for which SBC submitted a bid or considered submitting a bid, any memoranda associated with those RFPs, and the names of any contact persons at the companies that issued the RFPs.

(c) In instances where SBC has the information, please indicate the company or companies that were selected for those RFPs for which SBC submitted bids.

3. Please provide all documents in your possession regarding the level of familiarity that potential business and residential customers located outside the current SBC region⁷ have with the SBC, SWBT/Southwestern Bell, PacTel/PacBell/Pacific Bell, or SNET/Southern New England Telecommunications brand names. In addition, please provide all documents in your possession concerning the willingness of potential customers located outside of the current SBC region to purchase local or interLATA wireline telecommunications services from companies with the brands listed above (or any other brands that those companies may offer).

4. Please provide all documents in your possession regarding the level of familiarity that potential business and residential customers located outside of the current Ameritech region⁸ have with the Ameritech brand name. In addition, please provide all

⁶ Description of the Transaction at 4.

⁷ The current SBC region is defined as the portions of the 8 states served by Southwestern Bell Telephone Co. ("SWBT") (Texas, Missouri, Oklahoma, Kansas, and Arkansas), Pacific Bell (California), Nevada Bell (Nevada), and Southern New England Telecommunications Corp. ("SNET") (Connecticut).

⁸ The current Ameritech region is defined as the portions of the 5 states served by Ameritech (Illinois, Indiana, Michigan, Ohio, and Wisconsin).

documents in your possession concerning the willingness of potential customers located outside of the current Ameritech region to purchase local or interLATA wireline telecommunications services from companies with the Ameritech brand name.

5. The following questions concern the telecommunications expenditures of companies located within the combined SBC-Ameritech region.

(a) Please provide a list of all the 224 Fortune 500 companies referred to in the Description of the Transaction about which you have information concerning their total annual telecommunications expenditures.⁹

(b) With regard to the companies listed in response to Question 5(a) above, please provide all documents in your possession regarding the total annual telecommunications expenditures of these companies. To the extent it is available, please provide a breakdown of this figure by company, rather than an average figure for all companies.

(c) Please provide all documents in your possession regarding how the companies listed in response to Question 5(a) above, allocate their total annual telecommunications expenditures amongst different services (e.g., 30 percent annually devoted to local, 20 percent annually devoted to interLATA service).

(d) Please provide all documents in your possession regarding which portion of the telecommunications expenditures of the companies listed in response to Question 5(a) is devoted to in-region services currently provided by either SBC or Ameritech and which portion is provided by other carriers. To the extent possible, please provide the names of the other carriers used by the individual companies listed in Question 5(a), and state which services these carriers provide.

(e) Please identify whether any of the companies listed in response to Question 5(a) has a long-term contract with a telecommunications provider and, if so, specify when the contract expires.

(f) Please provide the contact names and telephone numbers of the in-house experts/managers overseeing the telecommunications needs of the 15 largest business customers in the current SBC region.

6. In the context of discussing the need to enter fifty markets, James S. Kahan states that "[o]ne of our most fundamental assumptions is that, in order to compete effectively for the business of our largest customers, we must have 'coverage' of approximately seventy

⁹ In this context, the term "telecommunications expenditures" includes both local and interLATA "telecommunications services" and local and interLATA "information services," as those terms are defined by the 1996 Act.

to eighty percent (70%-80%) of the telecommunications expenditures made by those customers."¹⁰

Please clarify the phrase "'coverage' of approximately seventy to eighty percent . . . of telecommunications expenditures." Does this phrase refer to total dollars spent on telecommunications and information services? If not, please explain the meaning of this phrase.

Updates to Business Plan

7. Please provide (on an ongoing basis) any market-specific data or plans that have been generated with regard to the National-Local Strategy, other than the information contained in SBC's October 8, 1998 confidential ex parte filing.

(a) To the extent that SBC after the merger intends to provide local or interLATA service through leased facilities or via resale, please describe in detail any agreements SBC or Ameritech has for the leasing of facilities or for obtaining services via resale.

(b) Please explain in detail the extent to which the information contained in the confidential October 8, 1998 ex parte filing is no longer applicable in light of the accelerated timetable for entry into the 30 out-of-region local markets noted in the Joint Opposition.¹¹

(c) Please provide any documents, other than SBC's October 8, 1998 confidential ex parte filing, that describe SBC's post-merger entry strategy into the 30 out-of-region markets. Please include any schedules regarding the timing of entry into specific markets and any assessments about the type of facilities and services that must be obtained from other carriers.

(d) Please provide any documents in your possession (including SBC estimates) relating to CLECs that provide service in any of the 30 out-of-region local markets that SBC intends to enter after the merger, including: a list of the CLECs, the CLECs' entry strategies (whether facilities-based or via resale), timing (e.g., nationwide rollout or selected markets, geographic areas), target customers, and the percentage of the target customers' total annual telecommunications expenditures that the CLECs are able to meet.

¹⁰ Description of the Transaction, Affidavit of James S. Kahan ("Kahan Aff.") at ¶¶ 48-49.

¹¹ See Joint Opposition at 6.

Determination that Merger is Necessary for Pursuing National-Local Strategy

8. Based on statements contained in the Joint Opposition, it is our understanding that, from SBC's perspective, the National-Local Strategy will require a significant investment and SBC may be unable/unwilling to undertake this financial investment without merging with Ameritech.¹² One reason that the merger will ameliorate any problems associated with the financial investment required to implement the National-Local Strategy is that Ameritech already has facilities in a number of the top 50 cities that the Strategy will target. Consequently, the required investment will be smaller.

Is there any other reason why the merger will make SBC more able/willing to undertake the financial investment associated with the National-Local Strategy?

(a) In particular, is it SBC's view that:

- 1) the merged entity would pay less for capital (i.e., the interest rate associated with any borrowed capital would be lower);¹³ or
- 2) the merged entity will be better able to bear the financial investment risk associated with the National-Local Strategy?

Please explain why either or both of the reasons listed above are applicable.

(b) To the extent that neither of the previous two reasons, either individually or together, explain why the merger would make SBC more able/willing to undertake the financial investment associated with the National-Local Strategy, please explain what other factors would influence SBC's decisionmaking in this regard.

(c) Please provide all documents in your possession regarding how the reasons listed in Question 6(a) and/or (b) above influenced SBC's decision to merge with Ameritech.

(d) Please explain whether the term "earnings dilution," as it is used in the Joint Opposition,¹⁴ refers to any of the reasons listed in 6(a) above, or whether the term refers to some other reason.

¹² See Joint Opposition at 32-33.

¹³ We note that the Reply Affidavit of James Kahan states that "this merger is not necessary to obtain the ability to raise the \$2.5 billion in capital required to implement the National-Local Strategy." Reply Affidavit of James S. Kahan at ¶ 39.

¹⁴ The Joint Opposition states that "[o]nly the merger will spread the earnings dilution over a sufficiently large shareholder and revenue base to make the undertaking acceptable to our shareholders and the investment community." Joint Opposition at 32-33 (citing Grubman Reply Affidavit at ¶¶ 7-8; Kahan Affidavit at ¶ 79; and Weller Affidavit at ¶ 34, 36).

(e) In addition, to the extent that SBC concludes that it will be more able/willing to undertake the National-Local Strategy post-merger because the merged entity will be better able to bear the financial investment risk associated with the National-Local Strategy, please explain why this is the case.

9. Viewing SBC's international, cable, and wireless activities during the last ten years as three separate investment projects, please provide the time profiles and cash flows¹⁵ associated with each of these projects over the last ten years.

10. In his Reply Affidavit, Jack B. Grubman compares the dilutive effects that would arise if the National-Local Strategy were pursued by SBC independently with the effects of pursuing the Strategy after a merger with Ameritech.¹⁶

(a) Please explain the methodology that Mr. Grubman used in determining the dilutive effects described in his reply affidavit.

(b) Please apply Mr. Grubman's methodology to the three investment projects described in Question 9 above. Please provide all documents showing the dilutive effects, based on Mr. Grubman's methodology, for the three investment projects described in Question 9.

11. Please provide all analyst reports in your possession regarding the SBC-Ameritech merger that have been issued since May 11, 1998, and on an ongoing basis. Please also provide transcripts and presentations from analyst meetings or conference calls that have occurred since the announcement of the merger.

12. The Joint Opposition states that "SBC did not invent the National-Local Strategy to justify merging with Ameritech; it was the strategy that came first, and the plan to merge that followed."¹⁷ In his affidavit, James Kahan, in discussing the National-Local Strategy, states that "[i]n the absence of the merger, SBC does not believe these strategies are viable and does not contemplate out-of-region entry into local exchange markets."¹⁸ In addition, Mr. Kahan states in his affidavit that SBC analyzed the possibility of pursuing an out-of-region entry strategy, on its own, in the 15 largest MSAs outside of SBC's region and compared these calculations with what would happen if the merger with Ameritech were to

¹⁵ In this context, the value of the cash flow should include any investments associated with the given project.

¹⁶ Reply Affidavit of Jack B. Grubman at ¶ 8.

¹⁷ Joint Opposition at 20.

¹⁸ Kahan Aff. at ¶ 85.

close.¹⁹

(a) Please state on what date SBC and Ameritech commenced discussions about the possibility of merging the two entities.

(b) Please provide all documents regarding SBC's analysis of the feasibility of pursuing an out-of-region entry strategy prior to the date when SBC and Ameritech began negotiations for the merger.²⁰

Please include all documents associated with SBC's plans to enter the Chicago and Rochester markets.

Please include any assessments about the feasibility of leasing or building facilities out-of-region: the amount and type of personnel that would be required to pursue an out-of-region strategy, and the impact such a strategy would have on SBC's share price and stock dividends.

With regard to any assessments concerning the amount and type of personnel that would be required to pursue an out-of-region entry strategy, please state whether SBC considered hiring or recruiting additional personnel in order to pursue this entry strategy. Please provide all documents in your possession regarding SBC's consideration of hiring or recruiting additional personnel in order to pursue an out-of-region entry strategy.

13. The SBC and Ameritech Joint Opposition states that "[n]either SBC nor Ameritech alone has a sufficiently large base of skilled management personnel to undertake an expansion of this scope on top of its in-region operations and obligations . . ."²¹ The Joint Opposition also states that "[e]fficiencies from the merger will free up a significant number of experienced managers, and they will take charge of our out-of-region expansion."²²

(a) Please list the categories of personnel the combined SBC-Ameritech will require to pursue the National-Local Strategy (e.g., marketing personnel, OSS experts, billing personnel, network engineers). Please provide all documents in your possession describing how personnel from the combined SBC-Ameritech entity will be deployed

¹⁹ Kahan Aff. at ¶ 50.

²⁰ In responding to this Question, please note that Questions 18 and 19 below ask specifically about SBC's use of combinations of unbundled network elements as part its pre-merger out-of-region entry strategy.

²¹ Joint Opposition at 27.

²² Joint Opposition at 28.

in out-of-region areas. Please explain how many individuals can be drawn from the existing categories of personnel at SBC and Ameritech to fill new positions that will be created as a result of the 30 city out-of-region entry strategy. In particular, please note what type of consolidation of responsibilities you anticipate will occur in the combined SBC-Ameritech entity that will "free up" experienced managers to take charge of out-of-region activities.

(b) Please describe the extent to which SBC has assessed Ameritech's personnel (i.e., either through direct review or through discussions with Ameritech) to determine whether a merger with Ameritech will provide the requisite personnel.

(c) Please identify whether any personnel resources will become available for reallocation to out-of-region markets once interLATA relief is granted.

Profitability of Serving Out-of-Region Residential and Small Business Customers

14. The Joint Opposition states that "[w]hile in general the cost of providing basic local residential service on a stand-alone basis exceeds the rates that can be charged for it, . . . the Applicants have determined they can profitably serve out-of-region residential customers through bundled packages."²³ The Joint Opposition and accompanying Reply Affidavit of Dr. Carlton further states that small business and residential services contribute 33 percent of the revenue the National-Local Strategy is expected to generate by its fifth year, and these services contribute 22 percent of the estimated value of the plan.²⁴ Please provide any documents in your possession (and do so on an ongoing basis as further documents become available) regarding the profitability of providing residential service in the 30 out-of-region markets that are listed as part of the National-Local Strategy.

In addition:

(a) Please provide a breakdown of the expected revenues and profits per service that would be included in the bundled package²⁵ that SBC intends to offer to out-of-region residential customers post-merger.

(b) Please explain and provide any associated documents in your possession regarding whether any percentage of the out-of-region residential or small business services SBC intends to provide would be provided via resold services.

²³ Joint Opposition at 9, n.19.

²⁴ *Id.* (citing Reply Affidavit of Dennis W. Carlton ("Carlton Reply Aff.") at ¶ 83, n.72). Dr. Carlton's accompanying Reply Affidavit does not cite to an underlying document where these calculations would have been developed.

²⁵ Kahan Reply Aff. ¶ 29.

(c) Please provide any documents in your possession regarding the estimated costs of providing service to residential and small business customers in the 30 out-of-region markets.

15. In describing why it would be profitable for the combined SBC-Ameritech to serve out-of-region residential customers, the Joint Opposition states:

[O]nce the ILECs enter other geographic markets (as CLECs) to begin selling to the large business customers, it would be relatively easy and low risk for them to move into the market for smaller customers (if prices begin to rise in those markets) by using assets that are already in place to serve large customers.²⁶

Please explain what is meant by the phrase "if prices begin to rise in those markets." Further, explain which prices must rise, how much they must rise for this strategy to be profitable, and provide all documents relating to this issue.

Relationship Between National-Local Strategy and Section 271 Authorization

16. Mr. Kahan, in discussing the reason for the merger, states in his affidavit that:

We regard the Ameritech merger as the means and the National-Local Strategy as the objective. In view of the substantial premium paid by SBC's current shareholders to acquire Ameritech (approximately \$13 billion), the Ameritech merger on its own is certainly not a compelling business opportunity for SBC. From SBC's perspective, the real upside for our current shareholders results from our ability, as a result of the merger, to preserve and create value for our shareholders by pursuing the National-Local Strategy.²⁷

In his prepared testimony for the Commission's December 14, 1998 Merger En Banc, Mr. Stephen Carter stated that "[t]he successful implementation of the National-Local Strategy requires that SBC obtain section 271 authorization in-region."²⁸

Given these statements, we request further clarification and documentation regarding the post-merger plans of SBC and Ameritech if section 271 approvals have not been received

²⁶ Joint Opposition, Affidavit of Richard J. Gilbert and Robert G. Harris at ¶ 77 (emphasis added).

²⁷ Kahan Aff. at ¶ 83 (emphasis in original).

²⁸ Presentation of Stephen M. Carter, President of Strategic Markets, SBC Communications Inc. to the Federal Communications Commission Hearing Regarding Telecommunications Mergers, December 14, 1998, at 1. See also Testimony of Stephen M. Carter at December 14, 1998 En Banc Hearing on Telecom Mergers, Transcript at 91 ("There is no doubt that without the benefit of [interLATA] relief[,] our national strategy is stranded."). << www.fcc.gov/enbanc/121498/eb121498.html >>

in any or all of SBC's post-merger in-region states by the time that the Commission acts on the joint application. Please answer the following requests for information and provide all related documents:

- (a) As of January 1, 1999, please describe the status of each state proceeding in which SBC or Ameritech is seeking section 271 approval.
- (b) For each state in the combined SBC-Ameritech region, please provide the date you expect to receive section 271 authorization from the Federal Communications Commission.
- (c) Please explain whether you would pursue the 30 city out-of-region entry strategy without providing originating in-region interLATA service. In addition, please produce any documents assessing the feasibility of pursuing the 30 city out-of-region entry strategy without section 271 authority to provide originating in-region interLATA service.
- (d) Please state whether it is possible to pursue the 30 city out-of-region entry strategy if SBC, after the merger, has authority only to provide originating in-region interLATA service only in certain states. Please identify the states SBC believes that it must, at a minimum, have authority to provide originating in-region interLATA service to commence the 30 city out-of-region entry strategy.
- (e) Please explain the public interest benefits, if any, of the 30 city out-of-region entry strategy if the combined SBC-Ameritech did not have authority to provide originating in-region interLATA service. In addition, please produce all documents in your possession that assess the public interest benefits of the 30 city out-of-region entry strategy if the combined SBC-Ameritech is unable to provide originating in-region interLATA service in some or all of its states.

Out-of-Region Local Market Competition Prior to the Plan of Merger

17. Please note in which state or federal proceedings SBC has cited Ameritech as an example of a CLEC that was: 1) obtaining services or facilities from SBC; or 2) in the process of obtaining interconnection agreements to obtain services or facilities from SBC. Please specify the services or facilities that SBC claimed Ameritech was receiving from SBC.

In addition:

- a) Please specify whether SBC has cited Ameritech in any state or federal proceedings as an example of a CLEC that was using or had tested SBC's operations support systems (OSS). Please also state whether SBC has cited Ameritech in any state or federal proceedings as an example of a CLEC that was developing an OSS interface that would be compatible with SBC's

interface.

b) With regard to any tests that SBC and Ameritech may have conducted concerning SBC's OSS, please specify the nature (e.g., which interface was tested), scope (e.g., stages of testing -- beta, commercial) duration, and results of any such tests.

18. Please state whether SBC has ever sought to obtain combinations of unbundled network elements (i.e., loop, switch, and shared transport) in any interconnection agreement between SBC and an out-of-region ILEC, in connection with SBC's attempts to enter out-of-region markets. If SBC has sought to obtain combinations of unbundled network elements, please specify in which states SBC made these requests and whether the requests were granted. Please provide all documents in your possession associated with SBC's attempts to obtain combinations of unbundled network elements out-of-region.

19. Please provide all documents in your possession associated with any assessments that SBC made concerning the utility of using combinations of unbundled network elements as an entry strategy in any out-of-region states.

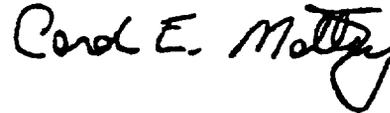
Requested documents that contain material deemed proprietary or confidential should be filed with the Commission pursuant to the protective order adopted in this proceeding.²⁹ In addition to the procedures set forth in that order, please note that the process for filing documents containing proprietary or confidential documents will be as follows:

A party filing a confidential document must deliver in person one copy of the confidential document to Radhika Karmarkar at 1919 M Street, Room 544. In addition, the party must file with the Secretary's Office one copy of the entire confidential document and two copies of the confidential document in redacted form, each with an accompanying cover letter. The confidential document and accompanying cover letter should be stamped "Confidential -- Not for Public Inspection." The two copies of the redacted document and their accompanying cover letters should be stamped "Redacted -- For Public Inspection." The cover letters accompanying both sets of documents should state that the party is filing a confidential document and a redacted version of that document. Other than having different stamps (i.e., "Confidential -- Not for Public Inspection" or "Redacted -- For Public Inspection"), the cover letter should be the same for the confidential and the redacted copies. The documents to be filed with the Secretary's Office should be delivered in person at 445 12th Street, S.W., Room TW-B204 to: (i) Magalie Roman Salas, Secretary; or in her absence (ii) William F. Caton, Deputy Secretary; or in his absence (iii) Ruth A. Dancey, Assistant Secretary.

²⁹ *In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation to SBC Communications Inc.*, Order Adopting Protective Order, CC Docket No. 98-141, DA 98-1952 (rel. Oct. 2, 1998).

In order to expedite the Commission's review of the application for consent to transfer of control, SBC should file documents responsive to the staff's requests as they are identified, rather than waiting for all to be prepared for submission. SBC should provide all requested information and documents by January 29, 1999. If you have any questions regarding these requests, please contact Radhika Karmarkar at 418-1628.

Sincerely,

A handwritten signature in black ink that reads "Carol E. Matthey". The signature is written in a cursive style with a large, looped 'y' at the end.

Carol E. Matthey
Chief, Policy and Program Planning Division
Common Carrier Bureau