Wayne Watts
General Attorney &
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SBC Communications Inc.
175 E. Houston Street
San Antonio, Texas 78205
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EX PARTE OR LATE FILED

February 2, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

By Hand

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TW-B204
Washington, D.C. 20554

Re: **SBC/Ameritech Merger; CC Docket No. 98-141**
Request for Documentary Material

Dear Ms Salas:

By letter dated January 5, 1999, Carol E. Mattey, Chief, Policy and Program Planning Division, Common Carrier Bureau, requested SBC Communications Inc. ("SBC") to produce information and documents with respect to SBC's proposed merger with Ameritech Corporation. Those requests were subsequently modified as set forth in an exchange of letters of January 29, 1999 between me and Ms. Mattey.

SBC is producing today a written response to the requests, as well as 17 boxes of responsive documents. Enclosed are two copies of that written response and a copy of my letter of today's date to Ms. Mattey regarding our responses. As stated in that letter, the documents are being produced to Radhika Karmarkar of the Common Carrier Bureau, and all documents are available for review by parties to this proceeding, in accordance with the terms of the protective order, at the offices of SBC's counsel, Arnold & Porter.

Finally, we will shortly deliver to your office a set of the documents that have been delivered to the Common Carrier Bureau. That set will be divided between documents that can be publicly disclosed and confidential documents that cannot be disclosed, by your Office, and, as noted, all documents will be available for review at the offices of Arnold & Porter.

Sincerely,

Wayne Watts

Wayne Watts

No. of Copies rec'd 0+1
List A B C D E

cc: Carol E. Mattey
Radhika Karmarkar

Wayne Watts
General Attorney &
Assistant General Counsel

SBC Communications Inc.
175 E. Houston Street
San Antonio, Texas 78205
Phone 210 351-3476

February 2, 1999

By Hand

Carol E. Mattey
Chief, Policy and Program Planning Division
Common Carrier Bureau
Federal Communications Commission
Room 544, 1919 M Street, N.W.
Washington, D. C. 20554

Attn: Radhika Karmarkar

Re: **SBC/Ameritech Merger; CC Docket No. 98-141**
Request for Documentary Material

Dear Ms. Mattey:

This letter responds to your letter of January 5, 1999 to Dale (Zeke) Robertson of SBC Communications Inc. ("SBC") requesting information and documents from SBC with respect to its proposed merger with Ameritech Corporation ("Ameritech").

In responding to your request, SBC has reviewed the files of over 300 employees and has interviewed dozens of people. Please find enclosed four (4) copies of a narrative response to the questions contained in your letter, as modified by our exchange of letters of January 29, 1999. The narrative also contains additional information regarding the merger, particularly with respect to SBC's National-Local Strategy, reflecting factual developments and refinements in that Strategy which have occurred since the filing of the Joint Opposition of SBC and Ameritech on November 16, 1998.

In addition to the narrative response, we are simultaneously delivering 17 boxes of responsive documents to Radhika Karmarkar. We are also simultaneously delivering to the Secretary a letter (copy enclosed) transmitting copies of the narrative response and informing the Secretary of the delivery of the responsive documents to the Common Carrier Bureau. We will shortly be delivering to the Secretary a set of the documents being delivered to the Bureau. All documents being delivered to the Bureau are available for review by parties to this proceeding, in accordance with the terms of the protective order adopted in this Docket, at the offices of our counsel, Arnold & Porter.

For your information, a list of the bates numbers of the responsive documents, organized by question number and subsection, appears at Exhibit 1 to the narrative. The documents have been numbered to correspond to the questions to which they are responsive.[1] As is typical of document productions, there are some gaps in the bates numbers although, as requested by Ms. Karmarkar, SBC will be submitting an index of the documents produced. I would note that, rather than produce multiple copies of identical documents that may be responsive to more than one question, we have generally included one copy of such a document with the question to which it appeared to be most directly responsive. Finally, in the interest of reducing the burden on the Commission staff, we have not produced as part of this submission copies of documents that SBC or Ameritech have already filed with the Commission in connection with this proceeding.

Please do not hesitate to contact me at your convenience if you have any questions regarding the foregoing, or regarding the narrative response or any of the responsive documents.

Sincerely,

Wayne Watts

Wayne Watts
Assistant General Counsel

cc: Magalie Roman Salas
Radhika Karmarkar

[1] For example, Document No. SBCAMFCC07c 000001 is responsive to Question #7(c).

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from AMERITECH CORPORATION, Transferor to SBC COMMUNICATIONS INC., Transferee.	CC Docket No. 98-141

NARRATIVE RESPONSE OF SBC COMMUNICATIONS INC.
<u>TO THE FCC's 1/5/99 REQUEST FOR SUPPLEMENTAL INFORMATION</u>

Respectfully submitted,

James D. Ellis
Wayne Watts
SBC Communications Inc.
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(202) 942-6060

Attorneys for SBC Communications Inc.

February 2, 1999

INTRODUCTION

This narrative addresses the questions contained in the January 5, 1999 letter from Carol Mattey to Dale (Zeke) Robertson, as those questions have been amended in the exchange of letters of January 29, 1999 between SBC and the FCC. With respect to the various requests for documents contained in that letter, Exhibit 1 to this narrative is a chart that lists the bates numbers of all documents being produced, organized by question number and subsection.

SBC believes that the responses provided in this narrative and the information contained in the accompanying documents underscore the unrebutted conclusions, established by the record now before the Commission, that:

- the National-Local Strategy will bring substantial new competition to out-of-region and in-region markets, particularly for residential customers, faster and more broadly than any other "real" alternative;
- there is no basis for finding a reasonable probability of competitive harm arising from the SBC/Ameritech merger, since: (a) no actual or potential competition will be eliminated and (b) the specter of increased incentives to discriminate remains just that, a speculative theory, not borne out by the behavior of any firm or empirical proof, which has consistently been rejected by this Commission as untenable in light of the prophylactic provisions of the 1996 Act and the Commission's rules; and
- there is no loss of any relevant benchmark; for regulatory agencies and interconnecting competitors (whether IXCs or CLECs), the lodestar of decision-making is the statute itself and, in practice, how the ILEC treats itself versus its competitors; moreover, nothing about the merger changes the fact that "benchmark"

and performance reporting is done at the ILEC level, generally on a state-by-state basis, without regard to ultimate parent companies.

The need for the merger to undertake the National-Local Strategy represents the best business judgment of the top management of two responsible, well-respected and successful public companies that understandably want to pursue a course that will attract, not repel, their dividend-sensitive shareholders. National telecommunications carriers larger and better-positioned than either SBC or Ameritech to "expand on their own" – namely, AT&T, MCI WorldCom and Sprint – have determined that it is necessary to make acquisitions or enter into alliances to lower their risk and enhance their prospects of succeeding in new businesses, e.g., local exchange and other new markets. In approving their acquisitions and alliances, the Commission has accepted these companies' plans, business judgments and asserted benefits. Similarly, the Commission should accept SBC's and Ameritech's plans, business judgments and asserted benefits. The Commission has no basis to reject the judgments of SBC and Ameritech that the merger is necessary for them to expand out-of-region on a large and rapid scale – with the undisputed public benefits that would flow from such expansion. The Commission should not ally itself as an advocate for one part of the telecommunications industry, and then handicap another. We believe that, if the Commission applies its existing standards in an evenhanded way, the unequivocal, pro-competitive benefits of the National-Local Strategy, together with the other synergies and public interest benefits this merger will produce, mandate approval of the pending transfer applications.

RESPONSES TO INDIVIDUAL QUESTIONS

Question #1:

This question seeks information and documents regarding the demand of large business customers for seamless, bundled, end-to-end telecommunications services on a national and global scale and, if possible, to have a single carrier capable of supplying all, or a substantial portion, of these services.

The existence of this demand is clear from the statements and actions of both the customers themselves and other carriers. Only by combining can SBC/Ameritech compete with those companies who already can, or will soon be able to, meet that demand, principally as a result of those companies' own mergers. The SBC/Ameritech merger will enable the combined company to secure sufficient scale, customer base and human resources to compete effectively for the business of these large customers through the implementation of the National-Local Strategy.

The demand for bundled, end-to-end service is well documented in Commission statements in the context of mergers and other ventures that it has approved, and in the materials before this Commission in this Docket and in other dockets.[1] Several large customers of both

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[1] See, e.g., In re Merger of MCI Communications Corp. and British Telecomm. plc, Memorandum Opinion and Order, 12 FCC Rcd. 15351 ¶¶ 56-57 (1997); In re Applications of NYNEX Corp. and Bell Atlantic Corp., Memorandum Opinion and Order, 12 FCC Rcd. 19985 ¶ 112 & n.222 (1997); In re Applications of Pacific Telesis Group and SBC Communications Inc., Memorandum Opinion and Order, 12 FCC Rcd. 2624 ¶ 48 & n.94 (1997); In re Sprint Corporation, Declaratory Ruling and Order, 11 FCC Rcd. 1850 ¶¶ 84-87 (1996).

With respect to this Docket, see Public Interest Statement at 3-4, 14, 98-100; Carlton Aff. ¶¶ 12, 19; Schmalensee/Taylor Aff. ¶¶ 14-16; Joint Opposition at 2-5, 21-23, 79-80; Kahan Reply Aff. ¶¶ 14-20; Carlton Reply Aff. ¶¶ 8-17.

Footnote continued on next page

SBC and Ameritech have submitted comments in this proceeding attesting to their desire to deal with a single (or principal) source of supply for all of their telecommunications needs.[2]

Equally important, the public statements of certain carriers who oppose this merger – most notably AT&T, MCI WorldCom and Sprint – that they can offer bundled packages to serve all of the telecommunications needs of large businesses, reflect the fact that they believe those customers are demanding such service.[3] New developments in the marketplace since the filing of the Joint Opposition further confirm this trend. For example, in December Sprint announced the commencement of its Integrated On-Demand Network ("ION") service, asserting that "Sprint is [the] first to deliver to businesses [a] single network for voice, data and video."[4] Similarly, in December AT&T announced that it had signed a contract to supply local and interLATA

Footnote continued from previous page

The evidence on this issue is not limited to this proceeding; Bell Atlantic and GTE cite the demand by large business customers for such service as the driving force behind their proposed merger. Specifically, they cite market research by GTE showing that over 86% of large business customers want to purchase bundled services from a single provider and that 68% want to have that provider serve all of their offices. In re Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer of Control, Joint Reply of Bell Atlantic Corporation and GTE Corporation to Petition to Deny and Comments, CC Docket No. 98-184, at 5 (filed Dec. 23, 1998) ("Bell Atlantic/GTE Reply").

2 See Joint Opposition at 4 n.4 (filed Nov. 16, 1998) (citing letters filed by large business customers, such as: Abbott Labs, Allegiance Healthcare Corp, Amoco Production Co., Bank One, ComEd, Compaq, Dresser, Edward Jones, Emerson Electric Co., Huntington Banks, Levi Strauss & Co., Shell Oil Co., Travelers Group and Ultramar Shamrock); Kahan Reply Aff. ¶¶ 14-15, 17-20. In addition, on January 21, 1999, Sears filed with the Secretary a letter in support of the SBC/Ameritech merger.

Similar comments from large business customers were filed in the Bell Atlantic/GTE proceeding. See Bell Atlantic/GTE Reply at 5 n.10.

3 See Joint Opposition at 4-5, 22-23; Kahan Reply Aff. ¶¶ 5-9.

4 Sprint Press Release, Sprint Launches Sprint ION Nationwide, Offering "Future Proof" and Expanded Family of Communications Services (December 7, 1998), available at <http://www.sprint.com/Stemp/press/releases/9812/9812070702.html> (visited Jan. 28, 1998), a

Footnote continued on next page

switched and private-line voice services, Internet services and data services for members of the Securities Industry Association and New York Clearing House Association in 25 major cities across the country.[5] And, a major article regarding AT&T, which appeared in the January 17, 1999 edition of The New York Times, reports that AT&T Chairman Armstrong wants AT&T to become the only communications provider its customers need.[6]

As noted in the Joint Opposition, MCI WorldCom claims to stand alone in its ability to offer a complete, end-to-end package of services to customers on a global basis.[7] Recently, MCI WorldCom announced that it has obtained an 8-year, $5 billion contract with the federal government to provide domestic and global voice, data and Internet services, including local service after one year.[8]

Other CLECs are also continuing to trumpet their ability to provide the kind of service that SBC's customers are demanding. For example, Teligent announced just days ago that it has launched service in four new markets (Atlanta, Boston, Philadelphia and Wilmington,

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copy of which is attached at Exhibit 2 to this narrative. Sprint's release noted, as an example, that Hallmark has placed its local, long distance, video, Internet and data business on ION. Id.

5 AT&T Press Release, AT&T signs $180-million local services agreement with financial services firm (Dec. 8, 1998), available at <http://www.att.com/press/item/0,1193,151,00.html> (visited Jan. 28, 1998), a copy of which is attached at Exhibit 3 to this narrative.

AT&T also recently announced a $120 million contract with Convergys, which has over 20 domestic and 12 international locations, to provide local, long distance, private-line and frame relay services. See AT&T Press Release, Convergys signs 3-year, $120 million contract with AT&T (Nov. 24, 1998), available at <http://www.att.com/press/1198/981124.bsa.html> (visited Jan. 30, 1999), a copy of which appears at Exhibit 4 to this narrative.

6 Seth Schiesel, At Last, a New Strategy for AT&T, New York Times, Jan. 17, 1999, § 3, at 1.

7 See Joint Opposition at 4; Kahan Reply Aff. ¶¶ 5-6.

8 See MCI Press Release, MCI WorldCom Wins Largest Contract Since Merger (Jan. 12, 1999), available at <http://www.mciworldcom.com/about_the_company/press_releases/archive/1999/990112.shtml> (visited Jan. 30, 1999), a copy of which is attached at Exhibit 5 to this narrative.

Delaware), bringing the total number of markets it is serving to 19, with 40 slated to be in operation by year's end.[9] Similar announcements have come from: Frontier (proclaiming that it now has "one of the largest service footprints in the industry, offering integrated local, long distance and data services to approximately 70 percent of the U.S. business population"); [10] Focal Communications (opening operations in Los Angeles and Washington, DC, and announcing "strong access line growth" for the fourth quarter);[11] NextLink Communications (announcing the acquisition of WNP Communications as a major step in its "goal of becoming a complete facilities-based, end-to-end provider of telecommunications services");[12] and Winstar (announcing plans to double the reach of its broadband network to 60 cities over the next two years).[13]

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[9] Teligent Press Release, Teligent introduces revolutionary, lower-cost communications services in Atlanta, Boston, Philadelphia and Wilmington (January 20, 1999), available at <http://www.teligent.com/templates/temp_pressrel.asp?content_id=173> (visited Jan. 30, 1999), a copy of which is attached at Exhibit 6 to this narrative.

[10] Frontier Press Release, Frontier Communications Doubled Number of Competitive Local Access Lines in 1998 (Jan. 12, 1999), available at <http://www.frontiercorp.com/about/news/1999112-916152812a.html> (visited Jan. 30, 1999), a copy of which is attached at Exhibit 7 to this narrative.

[11] Focal Communications Press Release, Focal Communications Corporation Reports Strong Access Line Growth During the Fourth Quarter (Jan. 14, 1999), available at <http://www.focal.com/news/1999/01/ 14/pr01.html> (visited Jan. 30, 1999), a copy of which is attached at Exhibit 8 to this narrative.

[12] Nextlink Press Release, Nextlink Communications to Acquire WNP Communications for $695 Million (Jan. 14, 1999), available at <http://www.nextlink.com/xpage/xpr_corp_011499.htm> (visited Jan. 30, 1999), a copy of which is attached at Exhibit 9 to this narrative.

[13] WinStar Press Release, Winstar Announces Plan to Extend Industry Leadership (December 17, 1998), available at <http://www.winstar.com/PressRelease/1217industryleadership.htm>, a copy of which is attached at Exhibit 10 to this narrative.

These announcements by Sprint, AT&T, MCI WorldCom clearly show that they are already or will soon be positioned to provide bundled services on the nationwide scale that large business customers are demanding.

In response to certain of the subsections in this Question #1, SBC notes the following:

(c) Initially, SBC may offer interLATA service principally via resale, although it will likely use some of its own or others' facilities as well.

(d) SBC has lost a significant amount of existing business, as well as new business opportunities, to CLECs.[14] SBC does not have the data necessary to calculate the percentage of its or Ameritech's business customers, or business opportunities, that either company has lost to those carriers who currently offer and market end-to-end service to business customers. SBC believes that the National-Local Strategy represents the most significant competitive initiative of any of the existing carriers, particularly with respect to residential customers. In the case of business-only customers, there are numerous carriers who already have a significant head start in the ability to provide end-to-end services to business customers. On a national basis, the carriers already positioned to provide the type of services SBC/Ameritech plan to provide under the Strategy are AT&T, MCI WorldCom and Sprint. Other companies that provide or are seeking to provide a range of services for business customers on a national or regional basis include, but are not limited to, Winstar, Teligent, Intermedia Communications

[14] Attached at Exhibit 11 to this narrative is a copy of SBC's year-end 1998 report on its market-opening activities that contains information on lost lines and other matters. This is the most recent version of that report. The October 1998 version of that report appeared as Attachment 14 to Mr. Kahan's Reply Affidavit in this Docket.

McLeodUSA, e.spire, Frontier, Focal Communications, Qwest, NextLink, Level 3, and RCN.

(e) This request has been modified to defer a response to this subsection pending the staff's review of the other documents being produced.

Question#2:

This question seeks documents and information regarding RFPs issued by business customers that reflect their demand for various types of networks and services, including RFPs for which SBC submitted or considered submitting a bid.

As agreed with the FCC staff, in lieu of producing such documents or information at this time, SBC will promptly meet with the staff to discuss the RFP issues. In the interim, SBC notes that the RFPs in the files of SBC personnel will not define the universe of lost opportunities of the company to bid for the provision of telecommunications services to business customers or potential customers. As evidenced by many of the customer letters that have been filed in this Docket, SBC typically is not considered by such customers or potential customers because they know that SBC lacks the ability to provide a full range of services at all or substantially all of their locations. However, the RFPs that SBC is aware of demonstrate that certain large business customers desire a telecommunications provider that can offer the customer one-stop shopping for end-to-end services.

Question ## 3 & 4:

These questions seek documents regarding the extent to which potential customers outside of the SBC and Ameritech regions are familiar with the brand names of SBC and its ILECs (Southwestern Bell Telephone Company, Pacific Bell, Nevada Bell and SNET), and

Ameritech, and the willingness of those customers to purchase local or interLATA wireline services from companies with those brand names.

SBC has not had occasion to conduct significant market research of customer familiarity with its wireline brand names outside of its region.[15] Generally, SBC recognizes that its brands are not well known outside the territory in which each is used. That is why it has concluded that it must develop a national brand to support its National-Local Strategy.

In fact, an in-region brand name reputation study being produced to the Commission indicates that, even within their traditional territories, SWBT and Pacific Bell are not the most recognized telecommunications companies. SBC looked at how SWBT's and Pacific Bell's brand names compared to AT&T, MCI, Sprint, GTE and WorldCom, and found that "AT&T by far had the greatest brand awareness."

Although SBC was not previously aware of Ameritech's marketing studies, SBC now understands from this proceeding and other proceedings relating to this merger that at least one such study indicates that the company lacks consumer awareness of its brand name for local service outside of its traditional territory, even for Ameritech's out-of-region cellular customers. That study concluded that awareness of Ameritech beyond the cellular realm was low, and that many Ameritech Cellular customers or prospective customers were unaware that the company was a major local telephone service carrier.

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[15] The only recent studies SBC has located involve its now-abandoned consideration of possibly using its out-of-region cellular systems (where SBC uses the Cellular One brand name) to offer local exchange service in certain areas. Despite finding that cellular customers would "consider" buying local exchange service from their cellular carrier, SBC's subsequent unsuccessful experiment in Rochester led it to terminate this activity in 1997. See Sigman Aff. ¶¶ 7-9, 16.

More generally, the Yankee Group announced in November 1998 that its survey of 750 small and medium businesses found a pronounced preference for long distance providers over local carriers.[16]

Question #5:

This question, as modified, seeks information and documents from the WEFA database and other publicly available information regarding the total annual telecommunications expenditures of certain large businesses – that is, the 224 Fortune 500 companies whose headquarters are located in the states currently served by SBC and Ameritech – that SBC personnel used in preparing analyses or studies with respect to the merger and the National-Local Strategy. Attached as Exhibit 13 to this narrative is a list of these 224 companies.

In developing the business plan for the National-Local Strategy, and subsequently in refining the Strategy, SBC has relied on publicly available information in the WEFA database and certain other publicly available data regarding the telecommunications expenditures of these companies. SBC has not used any internal information or documents (e.g., billing data) regarding the telecommunications services that certain of these companies (e.g., those headquartered in SBC's states) currently purchase from SBC, in connection with the development or refinement of the National-Local Strategy, and, of course, SBC does not have such data regarding the companies served by Ameritech.

[16] Yankee Group, Yankee Group Finds that Small and Medium Businesses Prefer Their Long Distance Provider Over Their Local Carrier (Nov. 23, 1998), available at <http://www.yankegroup.com/yg.snf/7660ab3cde06b649852566580069c4ce/1acf06136f849d81852566c50050a492?OpenDocument>, a copy of which appears at Exhibit 12 to this narrative.

The publicly available data regarding these companies' telecommunications expenditures that SBC has used in connection with developing and refining the National-Local Strategy include, for each company, a breakdown, by state, of the number of sites and the company's expenditures on local and long distance telecommunications.[17] These data do not include information as to which carriers are providing services to these companies nor as to whether any of these companies have long-term contracts with other carriers.

Finally, as this question has been modified, SBC is not required to provide a list of the in-house experts/managers overseeing the telecommunications needs of the largest 15 business customers in SBC's region.

Question #6:

This question asks for a clarification of the phrase "'coverage' of approximately seventy to eighty percent . . . of telecommunications expenditures" contained in Mr. Kahan's affidavit and, particularly, whether the phrase refers to total dollars spent on telecommunications and information services.

This phrase, as used in the affidavits of Mr. Kahan and Dr. Carlton, refers only to expenditures by large business customers for telecommunications services (i.e., local, including vertical, and long distance services) based solely on external data from WEFA. It is SBC's understanding that the WEFA data does not refer to the expenditures of large business customers for information services, although SBC plans to meet these customers' needs for those services wherever possible.

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[17] In attributing expenditures to the territory of a particular LEC, the data does not make any attribution to non-RBOC LECs (except for Cincinnati Bell). Thus, for example, expenditures by
Footnote continued on next page

Large business customers are increasingly seeking to consolidate more of their purchases of telecommunications services with carriers who can meet a greater portion of their needs, both in terms of the range of services provided (e.g., local, long distance, and data services) and the geographic scope of coverage. See responses to Questions ##1 & 2, above. In the affidavits of Mr. Kahan and Professor Carlton, this trend was described in terms of a carrier's ability to provide "coverage" of approximately 70-80 percent of a customer's needs. While there certainly may be instances in which a customer may require a different amount of "coverage," it is SBC's judgment that this 70-80% figure approximates what SBC should achieve in order to compete on a national basis, particularly with respect to the major carriers, such as AT&T, MCI WorldCom and Sprint, that already have national scale and scope.

Question #7:

This question seeks information and documents regarding market-specific data or plans that have been generated regarding the National-Local Strategy, in addition to the preliminary business plan for the Strategy (a copy of which was contained in SBC's October 8, 1998 confidential ex parte filing). In the case of subsection (d) of this question, as modified, the request for documents is limited to those documents that pertain to CLEC activity in the 30 out-of-region markets the combined SBC/Ameritech plans to enter (rather than to all U.S. markets in which CLECs are now offering service).

As originally formulated, the National-Local Strategy called for SBC to enter 30 new markets by the end of the third year after the merger closed. Subsequently, however, SBC

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companies served by GTE, Frontier and other ILECs are attributed to the RBOC serving the state in which they are located rather than the serving ILEC.

decided – based on the conclusions of its marketing personnel regarding the services being offered by its competitors – that this plan, at least in the case of certain markets, was too slow. Accordingly, it revised its plans to provide for entry into half of the 30 new markets within 1½ years after closing and to consider the possibility of adding additional markets to the list.

SBC has also formed the management team to implement the National-Local Strategy. That team is headed by Stephen Carter, who had been in charge of serving wholesale customers – including the negotiation of interconnection agreements – and who is well-versed in the requirements of the 1996 Act and the operation of CLECs.[18] While the implementation of all of the activities being undertaken by Mr. Carter's group is dependent upon the approval and closing of the Ameritech merger, SBC remains confident that the merger will be approved and it has proceeded in its planning activities based on that assumption. Mr. Carter and his management team have continued to refine the National-Local Strategy, including the selection of the first three markets to be entered next year after consummation of the merger. They have also taken a number of steps to prepare for such entry, including soliciting information from potential equipment vendors, preparing to begin interconnection negotiations – within the next several weeks – with the ILECs in the initial markets to be entered, and preparing state certification applications for those markets, which should also be filed in the very near future.

In response to the specific subsections of this Question #7, SBC notes the following:

[18] See Kahan Reply Aff. ¶ 24.

(a) With respect to SBC's plans for providing interLATA service after the merger, see the response to Question #1(c), above. Regarding local service, SBC plans to provide service primarily by utilizing its own facilities combined with unbundled elements purchased from ILECs and CLECs. As set forth in the response to Question #14(b) below, SBC anticipates that it may provide a small portion of such service by resale. SBC will be commencing its discussions with ILECs – regarding resale, obtaining UNEs, and interconnection agreements – within the next several weeks.

(b) As noted in (c), below, since the filing of the Joint Opposition on November 16, 1998, SBC has further refined the schedule for entering the markets covered by the National-Local Strategy. While that schedule will result in changes to the preliminary business plan contained in the October 8, 1998 ex parte filing, SBC has not prepared a revised version of that business plan. However, the documents referenced in subsection (c), below, with respect to the changed schedule, do contain revised budget figures with respect to SBC's National-Local operations in 1999, that resulted from the decision late last year to undertake an array of pre-merger activities in order for SBC to be in a position to be able to implement the Strategy on an accelerated basis post-merger.

(c) As described in the documents being produced, SBC plans to enter the first three out-of-region MSAs in the second quarter of the year 2000 and twelve more MSAs in early 2001, assuming that the merger is approved promptly. The remaining 15 MSAs will be entered before the end of the third year following consummation of the merger. With respect to the type of facilities and services that must be obtained from other carriers, and equipment or software suppliers, SBC already has issued Requests for Information ("RFIs") to five potential vendors. Responses to those RFIs are due later this month. Upon receipt of those responses, SBC will evaluate them and move forward toward making final decisions as to exactly what types of hardware and software will be necessary and what services will need to be obtained from ILECs and CLECs.

(d) Documents SBC prepared regarding CLEC activity, and other documents that contain the public information SBC has in its possession regarding these issues, are being produced. In addition, SBC has reviewed information contained in the New Paradigm report, a copy of which has been loaned to the FCC staff. SBC believes that its new market entry commitments to serve residential customers are considerably broader than those of most other carriers in the industry and, as discussed in the response to Question #14, below, SBC believes it will be successful in serving such customers.

Question #8:

This question seeks a variety of information and documents regarding why the merger facilitates the implementation of the National-Local Strategy.

As described in detail in the Applicants' transfer applications and Joint Opposition, and in the affidavits and other materials accompanying those filings, the merger would produce numerous benefits which, in the judgment of the Applicants' management, make the risks associated with the implementation of the Strategy following the merger acceptable and the rapid implementation of the Strategy possible. These benefits include: (a) numerous, quantifiable synergies and other benefits that will enhance the overall capabilities of the combined company, reduce its costs, and increase its revenues;[19] (b) a substantially larger base of large and mid-size business customers to follow out-of-region; (c) a substantial increase in the number of skilled managers and other employees available to deploy for the Strategy; (d) a reduction in the number of new markets that the combined company would have to enter de novo in order to serve the top 50 markets; and (e) a significantly larger base of shareholders over which to spread the substantial dilutive effects of the Strategy, which reduces those dilutive effects to an acceptable level for the combined company (that would otherwise not be acceptable for either Applicant on a stand-alone basis). All of these factors together reduce the costs and risks the Strategy will entail, increase the speed with which the Strategy can be implemented and its expected profitability, and, therefore, materially increase the likelihood that the Strategy will be successful. The successful implementation of the Strategy will result in significant public interest benefits – most particularly, a dramatic expansion in competition in the telecommunications industry for the benefit of all types of customers, including residential customers – as well as serving the interests of the combined company's employees and shareholders.

Without the merger, neither Applicant alone would implement the National-Local Strategy – the rapid and essentially simultaneous, facilities-based de novo entry into the provision of competitive local exchange, long distance, data and other services in 30 of the

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[19] See Kaplan Reply Aff. ¶¶ 17-40. Based on actual experience in implementing the SBC/Telesis merger, SBC projects over $2 billion in efficiency gains through the merger with Ameritech, in the form of cost savings and revenue enhancements, as well as a number of other benefits for consumers in the form of new and better products and services. See Public Interest Statement at 38-49; Kaplan Aff. passim.

largest markets in the U.S., as well as 14 major foreign cities.[20] The combined company will have more customers it can follow into out-of-region markets. This larger customer base increases the expected revenues from the out-of-region entry and increases the market penetration that can be achieved. As explained further in response to Question #13, below, neither Applicant alone now has the human resources necessary to create the foundation for the full employee base necessary to undertake the Strategy, and it is not reasonable to assume that either Applicant alone could secure those resources on a schedule that would be even close to that contemplated under the Strategy.[21] The merger also reduces the risks and costs of implementing the Strategy.[22] The merger enables the combined company to achieve greater revenues faster and at a lower cost than either Applicant could achieve on its own. In addition, the merger reduces the dilutive impact of the Strategy on earnings, which otherwise would be more than either Applicant could prudently bear alone.

For the same reasons that AT&T and MCI WorldCom found it necessary to make acquisitions in order to enter the local exchange business on a national scale, notwithstanding their pre-existing unique attributes – national brand names, tens of millions of customers, and facilities in every state – SBC and Ameritech find it necessary to merge to make it profitable to embark upon the National-Local Strategy. It would not be appropriate for the Commission to

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[20] SBC's announced plan to enter 30 new out-of-region markets represents its current expectation regarding the minimum number of new markets it must enter in order to provide the coverage its customers seek.

[21] See Carlton Aff. ¶¶ 31-35. As Dr. Carlton explained, if SBC were to undertake the National-Local Strategy on its own, it would require a commitment of 16% of its management force (and 36% of Ameritech's management force if Ameritech pursued the Strategy on its own), while the implementation would require only 8% of the combined company's management force. See id.

[22] In addition, many of the types of synergies the merger will produce can be applied in entering out-of-region markets.

uniformly credit the business judgments of AT&T and MCI WorldCom (and others) as serving the "public interest,"[23] and to second-guess the business judgments of SBC's and Ameritech's managements that they need this merger to accomplish the Strategy without undue risk and dilution. There can be no reasonable dispute that the National-Local Strategy is overwhelmingly procompetitve, and the notion that these benefits can be achieved under a similar schedule and with a similar scope absent the merger has no evidentiary basis. To the contrary, such a conclusion would be wrong.

In response to the specific subsections of this Question #8, SBC notes the following:

(a) As explained above, there are many reasons why the merger enables SBC to implement the Strategy, in addition to the fact that the FCC has noted in this question – i.e., that, absent the merger, SBC would have to enter more than 30 new markets in order to serve all 50 of the largest markets in the country.

Mr. Kahan has stated repeatedly that those reasons do ***not*** include a lower cost of capital, as suggested by subpart (a)(1). But they do include the fact that the

[23] See, e.g., In re Applications of Teleport Communications Group, Inc., Transferor, and AT&T Corp., Transferee, Memorandum Opinion and Order, 13 FCC Rcd. 15236 ¶¶ 2, 47-48 (1998) ("[W]e are persuaded that, as a result of the merger, the combined entity likely will be able to expand its operations and enter local markets more quickly than either party could do absent the merger"); In re Application of WorldCom Inc. and MCI Communications Corp. for Transfer of Control of MCI Communications Corp. to WorldCom, Inc., Memorandum Opinion and Order, CC Docket No. 97-211, FCC 98-225, 1998 WL 611053 ¶¶ 2, 163, 191-194, 199 (released Sept. 14, 1998) (at ¶ 199, the Commission stated that "we conclude that WorldCom and MCI have made a sufficient showing that, as a result of combining certain of the firms' complementary assets, the merged entity will be able to expand its operations and enter into new local markets more quickly than either party alone could absent the merger. For example, the Applicants claim that MCI Metro and Brooks Fiber will accelerate local city network development in secondary markets by 1-2 years."); In re Sprint Corp., Declaratory Ruling and Order, 11 FCC Rcd. 1850 ¶¶ 5, 77-78 (1996) ("[W]e find no reason to question Sprint's representations that it needs these investments [by DT and FT] to participate fully in various sectors of the U.S. communications market.").

combined company will be better able to bear the financial risk associated with the Strategy, as suggested by subpart (a)(2), and as explained above.[24]

(b) SBC has set forth above the numerous factors associated with this merger that facilitate the undertaking of the National-Local Strategy. No one factor itself is determinative. Rather, it is on the basis of the combination of all of these factors that SBC believes that it can successfully implement the Strategy – and it has firmly committed to do so upon approval of the merger. Indeed, as explained in response to Question #7, above, SBC is now fully engaged in various planning, procurement and other steps to initiate the Strategy promptly upon approval of the merger.

(d) SBC has explained above how "earnings dilution" factored into the decision by SBC management that it would not undertake the Strategy in the absence of the merger, and further information regarding the significance of the dilution factor will be reviewed with the staff in the discussions regarding Questions 9 and 10.

(e) SBC believes that it has provided the response to this request in subsection (a)(2) of this Question #8.

Question ##9 & 10:

Questions 9 and 10 seek financial information regarding SBC's out-of-region investments in international, cable and wireless businesses, an explanation of the dilution analysis undertaken

[24] See also Public Interest Statement at 51; Kahan Aff. ¶¶ 79-80; Weller Aff. ¶¶ 34-36; Joint Opposition at 32-35; Grubman Reply Aff. passim.

by Mr. Grubman with respect to the National-Local Strategy, and an application of that analysis to SBC's international, cable and wireless investments.

As agreed with the FCC staff, in lieu of producing such information at this time, SBC will promptly meet with the staff to discuss the dilution and investment issues.

Question #11:

This question, as modified, seeks copies of analyst reports regarding the merger that have been prepared since May 11, 1998, as well as copies of transcripts and presentations from analyst meetings or conference calls that have occurred since that date, that are in the possession of SBC's Investor Relations Group.

Copies of these documents are being produced.

Question #12:

This question seeks information and documents containing plans or assessments SBC conducted regarding the feasibility of SBC pursuing an out-of-region local exchange entry strategy prior to its merger discussions with Ameritech, and the date on which SBC and Ameritech commenced those discussions.

As SBC stated in its S-4 filing with the SEC, SBC had its first contact with Ameritech regarding the possibility of a merger on February 24, 1998.

The evolution of the National-Local Strategy and its relationship to the Ameritech merger have been explained in the prior filings by SBC and Ameritech in this Docket. Mr. Kahan testified in his original affidavit that SBC's senior management recognized through the fall of 1997 that the company should expand to become a national/international service provider. It explored various options, including joint ventures and de novo entry, but found them to be unacceptable. By early 1998, SBC still "did not have an implementation strategy," so it began looking for a merger partner.

As we have explained previously, SBC's contemplation of local exchange entry in those out-of-region areas where it operates cellular systems, including Rochester and Chicago, as referred to in this question, was terminated in 1997 for the business reasons set forth by SBC Wireless Inc. CEO Stan Sigman in his affidavit attached to the Public Interest Statement. That activity was in no sense an independent alternative to, or even a predicate for, the National-Local Strategy; and it was abandoned as uneconomic well before any consideration of the Ameritech merger. SBC has nevertheless produced documents relating to its consideration of the use of its out-of-region cellular systems to provide local exchange service.

To the extent that this question suggests that SBC has extensive documented analyses of undertaking some version of the National-Local Strategy alone, that suggestion is incorrect. Mr. Kahan has not suggested that such analyses exist, and SBC had no plans to undertake de novo out-of-region wireline entry independent of its effort to test the use of its existing out-of-region wireless systems to offer local exchange service. With respect to the latter possibility, the experiment in Rochester demonstrated that a cellular-based local exchange strategy was not viable, and SBC has not pursued such a strategy, as the documents show.

Finally, the analysis Mr. Kahan discussed in Paragraph 50 of his affidavit pertains solely to the ability to "cover" the telecommunications expenditures of large customers headquartered in each territory,[25] an analysis that he goes on to discuss further in the following Paragraphs 51-54.

<u>Question #13:</u>

This question seeks information regarding the statement in the Joint Opposition that neither SBC nor Ameritech alone has a sufficiently large base of skilled employees to undertake an expansion as large and as rapid as that contemplated under the National-Local Strategy, and that efficiencies from the merger will make available a significant number of managers and other skilled personnel who can be utilized for out-of-region expansion.

The personnel requirements to implement the National-Local Strategy are daunting. SBC estimates that over 8,000 employees – including approximately 3,000 managerial level employees in the areas of engineering, sales and marketing, administration and customer service – will be required, most of whom will be spread across the country. This is a larger employee base than existed at CLECs such as MFS, Brooks Fiber or TCG at the time they were acquired by WorldCom and AT&T. For example, by the end of 1997, MFS had fewer than 4,000 employees, TCG had approximately 3,000 employees, and Brooks Fiber had approximately 1,600 employees.[26] Put another way, the National-Local Strategy would require a number of managers equal to 16% of SBC's current managerial work force or 36% of Ameritech's current managerial work force on a stand-alone basis.[27]

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[25] Kahan Aff. ¶ 50.

[26] Kahan Reply Aff. ¶ 42.

[27] Kahan Reply Aff. ¶ 42; Carlton Aff. ¶¶ 31-34.

The difficulty of staffing a nationwide, labor intensive operation like the National-Local Strategy, especially on an accelerated timetable, is increased substantially by the current state of the market for such skilled personnel. Since passage of the 1996 Act, the demand for such personnel has increased dramatically, with no significant increase in supply. At present, SBC already has numerous vacancies for managerial and other skilled positions for its in-region operations, and SBC's managers are the subject of continuous recruiting efforts by the major IXCs and the hundreds of CLECs that are now authorized to compete within the states served by SBC and Ameritech.

In the face of these existing vacancies and the struggle to retain the personnel needed to maintain and expand its ongoing in-region operations, it is unrealistic to assume that SBC could provide from its existing base of employees the human resources needed to construct and operate new local exchange operations in 30 new cities on the scale and under the accelerated schedule SBC believes is required. Nor is it any answer to say that SBC could simply hire all new people. In a labor market as tight as SBC is already facing, it is obviously not reasonable for SBC to assume that, alone, it could successfully hire, train and assimilate an even larger number of managers and have them available to run operations in 30 new cities within such a short timetable.[28] The only way that this can be done is through the merger, which will create a larger

[28] Some of the comments made in state proceedings understand this; they have expressed concern that out-of-region entry will not leave sufficient numbers of skilled personnel in place to support in-region networks. See Joint Opposition at 28 n.72. Moreover, even if sufficient numbers of new employees could be hired to implement the National-Local Strategy (which cannot be done), it would not be wise for SBC to rely entirely on new hires, who are unfamiliar with the company, to undertake such a large and important endeavor. Kahan Aff. ¶ 78; Carlton Aff. ¶ 32.

base of already trained and experienced employees from which to draw, including employees who can be freed up as a result of the synergies and efficiencies the merger will bring.

In response to the specific subsections of this Question #13, SBC notes the following:

(a) A list of the categories of personnel that will be required to support the National-Local Strategy is contained in the documents being produced. Until the merger has been approved and consummated, SBC and Ameritech will not be able to determine which employees can be transferred or exactly how many can be taken from existing categories of employees. SBC does anticipate, however, that the elimination of duplicative functions will free up experienced managers and other skilled personnel to support its out-of-region operations.

(b) SBC has not yet assessed specific personnel of SBC or Ameritech to determine precisely how they will be utilized in implementing the National-Local Strategy. Based on SBC's experience with the Pacific Telesis merger, and the fact that there will obviously be areas of duplication between the current workforces of SBC and Ameritech, SBC has no doubt that, post-merger, employees from SBC and Ameritech can be made available and will be a critical component of the plan.

(c) SBC does not anticipate that the grant of interLATA relief will make personnel available for out-of-region markets. To the contrary, when that relief is granted there will be a need for additional personnel to provide long distance service in-region. This need for additional in-region personnel as SBC continues to expand its in-region operations, coupled with the current conditions in the market for experienced managers underscores the critical need to merge with Ameritech in order to obtain sufficient personnel for an aggressive, nationwide plan for out-of-region operations.

Question #14:

This question seeks information and documents regarding the profitability of providing residential service in the 30 out-of-region markets SBC plans to enter as part of the National-Local Strategy.

SBC believes that it will be successful in marketing service to out-of-region residential customers, particularly as part of a bundle of other services, based on the success it has achieved in marketing services to its in-region residential customers. For example, SBC is the industry leader in the sales of both second lines and vertical services to residential customers.

SBC is producing to the Commission a variety of documents containing plans and models for the National-Local Strategy; a copy of the preliminary business plan for the Strategy was provided to the FCC staff in a confidential ex parte filing on October 8, 1998. These analyses were preliminary and, as stated in the response to Question #7(b), were subject to refinement as the actual planning for SBC's out-of-region entry progressed. Part of these analyses, however, demonstrates the impact of bundles, including long distance, voice mail and other vertical features, on the profitability of providing residential service. These data show that the profitability of serving residential customers is significantly enhanced by offering a bundle of services.

In response to the specific subsections of this Question #14, SBC notes the following:

(a) In its preliminary analysis, SBC broke down projected revenues from out-of-region residential service into various components. Many of the expenses, however, were not segmented by service. In addition, the detail of capital expenditures did not differentiate between the residential and small business segments, and must be apportioned to each in order to identify overall expenses and profitability figures. All of this analysis is subject to revision and refinement, as stated above.

(b) SBC's preliminary analysis of the National-Local Strategy assumed that 10 percent of residential service would be provided through total service resale ("TSR") on a constant basis throughout the 11-year period analyzed. For the remainder, the analysis assumed an initial mix of 80% unbundled network elements ("UNE") – that is, unbundled elements including more than just the loop – and 10% unbundled loops. Over time, as SBC installed more switches and other facilities, this mix would shift in the direction of primary reliance on unbundled loops, so that by the eleventh year of the plan, 70% of residential service would be provided via unbundled loops, 20% by UNE, and 10% by TSR. As with the rest of the analysis, these projections are subject to ongoing refinement as planning progresses.

(c) As indicated above, SBC's preliminary analysis provided a projection of expenses in connection with providing residential service. These projections were made on an aggregate basis, rather than market-by-market, and differing conditions in individual markets will vary the analysis. These projections are subject to ongoing refinement as planning progresses.

Questions #15:

This question asks for an explanation of the phrase "if prices begin to rise in those markets" from the Reply Affidavit of Drs. Gilbert and Harris.

This quote is a direct reference to the historical policy of subsidizing local telephone rates for many residential customers to promote universal service. The meaning of the phrase "if prices begin to rise in those markets" is clear from the context of the affidavit. The immediately preceding paragraphs (Paragraph Nos. 75-76) refer explicitly to the "regulatory policy that maintains residential tariffs at or below the cost of serving those customers" and to the "structure of local rates and its embedded cross-subsidies" as one factor in evaluating the profitability of serving residential customers.[29]

It is common knowledge that the universal service requirements and the accompanying regulations imposed on ILECs result in certain services, particularly residential local exchange services, being priced below cost.[30] Thus, regulation has made serving many residential customers unprofitable absent existing cross-subsidization. The removal of these regulations and cross-subsidies — which the FCC staff and various state commissions are addressing —either could cause the prices of subsidized services to rise, to the extent that those subsidies currently result in prices below the cost of providing those services, or they will replace existing implicit subsidies with explicit subsidies. The quoted reference by Drs. Gilbert and Harris is directed at price increases as a result of regulatory changes that would permit ILECs to recover the marginal cost of serving residential customers, and not to any impact of this merger.

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[29] See Gilbert/Harris Reply Aff. ¶ 76.

[30] See, e.g., Robert G. Harris and C. Jeffrey Kraft, Meddling Through: Regulating Local Telephone Competition in the United States, 11(4) Journal of Economic Perspectives 93, 97 (1997).

Question #16:

This question, as modified, seeks information regarding the current status of each state proceeding in which SBC or Ameritech is seeking Section 271 approval, and the relationship between receipt of those approvals and the implementation of the National-Local Strategy, but does not request any documents regarding these matters.

In response to the specific subsections of this Question #16, SBC notes the following:

(a) Status of State Proceedings in SBC's Seven State Region:

(1) Texas. SWBT filed a Notice of Intent with the Texas Public Utility Commission ("PUC") on March 2, 1998. The Texas PUC held hearings April 21, 1998 through April 25, 1998. On June 1, 1998, the Texas PUC issued an order establishing a collaborative process for consideration of SWBT's 271 application. Collaborative process workshops were held from July 30 through October 29, 1998. The Texas PUC staff issued a Final Staff Status Report on the collaborative process on November 18, 1998. The Texas PUC held open hearings in December 1998 and January 1999 on the collaborative process recommendations and the 271 application's satisfaction of the checklist items. Significantly, on January 26, 1999, the Texas PUC issued a News Release announcing that SWBT "has fully met ten of the 14-point checklist items" and that it anticipated it would recommend 271 approval after the testing of SWBT's

operating systems (which is expected to begin in March 1999 and continue for 3 months).[31]

(2) Kansas. SWBT filed a Notice of Intent with the Kansas Corporation Commission ("KCC") on February 17, 1998. Comments and rebuttal testimony were filed in May 1998. The KCC held hearings from June 2, 1998 through June 5, 1998. On November 18, 1998, the KCC issued an interim report on SWBT's 271 application's satisfaction of the checklist items, and ordered SWBT to submit additional evidence. On December 16, 1998, the KCC staff filed a motion recommending a process for discussion of open issues with respect to SWBT's 271 application, including meetings to be held beginning January 1999 and the subsequent submission of direct, rebuttal and reply testimony.

(3) Missouri. SWBT filed a Notice of Intent with the Missouri Public Service Commission ("PSC") on November 20, 1998. The Missouri PSC issued a revised procedural schedule on December 30, 1998, ordering the submission of rebuttal testimony by January 25, 1999 and surrebuttal testimony by February 4, 1999.

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[31] See Public Utility Commission of Texas News Release, SWB's long distance bid nears finish line (Jan. 26, 1999), available at <http://www.puc.state.tx.us/nrelease/012699a.htm>, a copy of which is attached at Exhibit 14 to this narrative. In the News Release, PUC Chairman Wood was quoted as saying that he is "very pleased and heartened by the successful resolution of so many critical issues" and the Release notes that the remaining substantive issues to be resolved "will be considered in mid-February, possibly concluding the lengthy collaborative process." What will remain will be the operations testing. PUC Commissioner Judy Walsh is quoted as saying that: "Based on [Southwestern Bell's] cooperation in this process, I am confident that the remaining issues can be resolved, and that upon successful completion of operations systems testing, the [Texas PUC] can then make a positive recommendation to the FCC."

(4) Arkansas. SWBT filed a Notice of Intent with the Arkansas Public Service Commission ("PSC") on February 24, 1998. Intervenors filed comments in May 1998, and SWBT filed rebuttal testimony on June 11, 1998. The Arkansas PSC held hearings June 17 through 19, 1998. On August 28, 1998, the Arkansas PSC issued a "Consultation Report to the FCC." This report linked the final outcome on SWBT's Arkansas 271 application to the outcome of the Texas PUC 271 proceeding and found that SWBT did not meet all the checklist items. The Arkansas PSC issued an order closing the 271 application docket on September 30, 1998.

(5) Oklahoma. SWBT filed a draft 271 application with the Oklahoma Corporation Commission ("OCC") on February 6, 1997. The OCC issued a recommendation to the FCC on April 30, 1997. SWBT filed a 271 application for Oklahoma with the FCC on April 11, 1997. The FCC rejected that application on June 26, 1997. SWBT filed a second Notice of Intent on February 13, 1998. The OCC held hearings from April 27 through May 5, 1998, and again beginning June 17, 1998. The ALJ considering the application issued an oral ruling July 2, 1998 stating that SWBT met six of the checklist items. SWBT filed for a postponement of the ALJ final report on July 8, 1998. The ALJ has not issued a final report yet.

(6) Nevada. Nevada Bell has not filed a Notice of Intent with the Public Utility Commission of Nevada.

(7) California. Pacific Bell filed a Notice of Intent with the California Public Utilities Commission ("PUC") on March 31, 1998. Comments and reply comments were filed on the 271 application in April and May 1998. Formal

discovery on designated issues was conducted from July 13 through July 20, 1998. The California PUC held prehearing conferences on July 15 and July 16, 1998. Collaborative process workshops were held from July 22 through August 25, 1998. The California PUC staff issued a final report on October 5, 1998, which stated that Pacific Bell met four of the checklist items. Comments and reply comments were filed on the staff's report on October 13, 1998 and October 22, 1998, respectively. The California PUC issued a final decision on December 17, 1998. The California PUC's final decision constitutes the PUC's evaluation of the 271 application's satisfaction of the checklist items, adopts recommendations for satisfying certain checklist items, and requests various compliance filings by Pacific Bell. The target date for Pacific Bell's compliance filing is June 1, 1999.

(b) Expected Dates of Section 271 Authorizations:

SBC is unable to identify a specific date for receipt of Section 271 authorizations for any of its seven states. However, the Company believes that such authorizations will be obtained for all of its states within the next 12-18 months.[32]

[32] See id.

Of SBC's seven states, it expects to receive approval from the FCC for Texas and/or California first, and it believes that 271 approval for the remaining five states will follow shortly after the approvals for these two states. As in Texas, SBC has been provided a roadmap by the California PUC that defines the steps necessary for Pacific Bell to satisfy the fourteen-point checklist. The current schedule calls for a compliance filing by June 1, 1999, which suggests that state review should occur in fall 1999, followed by FCC approval in early 2000. In light of the recent announcement by the Texas PUC, approval there may even be obtained before California.

These dates may well accelerate because, as the Commission is aware, market conditions continue to change dramatically and in ways that are bringing even more competition to local markets. This picture of new local competition can be understood by looking at SBC's regions where it faces increased competition from the national vertically-integrated firms, AT&T, MCI WorldCom and Sprint, from other CLECs, and soon from GTE-Bell Atlantic, should that merger be approved.[33] For example, in Texas, there are over 250 telephone companies with certificates.[34] In California, there are at least 163 CLECs with certificates, over 60 of which have approved tariffs (over 30 of

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[33] Bell Atlantic and GTE have announced plans to enter at least 21 local markets outside of the areas currently served by those companies within 18 months after the close of their merger. These include the following eleven cities in the areas currently served by SBC and Ameritech: Los Angeles, San Francisco, San Diego, Dallas, Houston, Austin, San Antonio, Chicago, Cleveland, Indianapolis and Detroit. <u>In re GTE Corp., Transferor, and Bell Atlantic Corp., Transferee, for Consent to Transfer of Control</u>, Application for Transfer of Control of GTE Corp. and Bell Atlantic Corp., CC Docket No. 98-184, Ex. A (Public Interest Statement) at 6-7 (filed Oct. 2, 1998).

[34] <u>See</u> Texas PUC News Release cited at footnote 31, above.

which are wholly or partially facilities-based).[35] In these circumstances, it is clear that Section 271 authorizations will be compelled by market forces, apart from SBC's own prodigious (billion dollar plus) checklist compliance efforts.

(c)–(d) Pursuit of the National-Local Strategy Without 271 Authorizations:

These subsections seek information regarding whether "you" would pursue the National-Local Strategy absent 271 authority and whether, after the merger, it is possible for the combined company to pursue the Strategy if 271 authority has been obtained only in certain states.

SBC has interpreted the word "you" in subsection (c) to mean the combined SBC/Ameritech since, as SBC has previously explained, SBC alone had no plans to pursue the Strategy absent the merger. Indeed, SBC has tried to make it clear that it is the merger that enables the pursuit of the Strategy. SBC understands that some have argued that, if SBC were committed to pursuing Section 271 relief independent of the merger, then, *a fortiori*, it must be the case that SBC would pursue the National-Local Strategy without the Ameritech merger. The problem with this theory is that it misunderstands the role 271 approval plays in the SBC/Ameritech National-Local Strategy. While 271 approval is necessary for the Strategy ultimately to be successful, such approval alone is insufficient for the Strategy to succeed. As Mr. Kahan and Dr. Carlton have explained in their affidavits, without the merger the regional structures of SBC and Ameritech leave both companies less well situated – alone – to provide national (or near national)

[35] California Public Utilities Commission, List of Carriers Certificated to Be Competitive Local Carriers in California (Dec. 4, 1998), available at <http://www.cpuc.ca.gov/telecommunications/lists.htm>.

coverage to those large business customers seeking end-to-end service. While obtaining 271 relief will allow the combined company to offer long distance services in-region, it will do nothing to change the fact that, without the merger and the implementation of the National-Local Strategy made possible by the merger, SBC and Ameritech each remains a regional company.

The relationship between the receipt of 271 authority and the implementation of the Strategy is a question of timing. SBC recognizes that the ultimate success of the Strategy depends on the receipt of 271 authority, and SBC fully expects to receive such authority within the time frame contemplated for the implementation of the National-Local Strategy. As explained above, SBC currently believes that it will have 271 authority in its largest states within the next 12-18 months, which is consistent with its current plans for the roll out of the Strategy in the initial markets. SBC also anticipates that, once it obtains 271 authority in its largest states, it will secure that authority in the remaining states in short order. If SBC believed it would never obtain 271 authority, it would not have pursued the merger and the Strategy, but that is not a prudent or realistic assumption.

The implementation of the Strategy requires large-scale investment, planning, network development and service roll out, which take time. The Ameritech merger provides the market scope, management expertise, and other resources to undertake the Strategy and, while consummation of the merger and receipt of 271 authority in all or most of the combined company's states will ultimately be required for the Strategy to fully succeed, it is not necessary for that relief to be granted in any state in order to begin the planning, network development, and certain other pre-roll out activities. Indeed, waiting until 271 authority has been granted in every one of the combined company's states before beginning this difficult, ground-breaking effort would severely impede the successful implementation of the Strategy, and it would hamper the ability of the combined company to compete with the several large carriers, particularly AT&T, MCI WorldCom and Sprint, who are already positioned to serve the end-to-end needs of large business customers and who are now actively soliciting their business.

Thus, while the ultimate roll out of the Strategy in the out-of-region markets will, as a practical matter, be affected by the timing of the receipt of 271 authority, SBC believes that, in the interim, it must begin the process of planning, investment and network development for the implementation of the Strategy, and it has taken steps to do so, because it believes that it will obtain 271 authority under a schedule consistent with its plans to roll out the Strategy. SBC anticipates that these pre-roll out activities will accelerate once the merger is approved, when additional resources can then be devoted to them. It is not necessary to obtain 271 authority in <u>any</u> state in order to commence these activities, and SBC believes that it is possible to, and it plans to, commence the roll out of the Strategy once it has 271 authority in less than all of the combined company's states. While SBC has not determined a "minimum" number of such states, it expects to obtain such authority first in its largest states.

(e) <u>Public Interest Benefits of the National-Local Strategy Without 271 Authorizations</u>:

The uncertainty regarding when SBC will obtain Section 271 authorization in its various states does not render the benefits of the merger and National-Local Strategy illusory. To the contrary, approval of the merger will increase the already significant incentives SBC has to obtain 271 approval. It is undisputed that SBC has paid a premium to acquire Ameritech. As SBC has said, without the National-Local Strategy, the benefits of the merger would flow principally to Ameritech shareholders. On the other hand, the National-Local Strategy provides substantial growth opportunities for the benefit of all of SBC's shareholders, employees and customers. Therefore, added to SBC's existing incentive to obtain 271 approvals will be the necessity of obtaining such approvals in order to create an opportunity for all shareholders, employees and customers to realize the benefits of this merger.

Moreover, as discussed above, the mere fact that SBC does not currently have 271 approvals (or may not have received them by the time the Commission acts on the pending transfer applications) is not a reason to discredit the Strategy. Indeed, given that the Strategy contemplates a facilities-based entry that will take time to implement, the anticipated timing of 271 approvals is consistent with SBC's service roll out plans. SBC believes that it is reasonably close to approval in its two largest states, and it believes that once one of those states has approved its application, that will serve as a successful template for rapid approvals in the other states.

Finally, the only reasonable expectation, and the one SBC is following, is that SBC will obtain 271 approval for all of its seven states at some point in the relatively near future. The national and global telecommunications marketplace has been rapidly changing since passage of the 1996 Telecommunications Act, and predictions of new entry into the local market are now a reality. Bell Atlantic/NYNEX/GTE have announced that the combined entity will enter 21 new markets. AT&T/TCG/TCI anticipate nationwide entry via cable modem access by next year. Sprint has announced that its new ION service will forge the way for its national entry plan. And, MCI

WorldCom/Brooks Fiber/MFS/UUNet is already offering national and international services, in conjunction with local service. These changes in the national telecommunications marketplace will accelerate approval of all 271 applications.

Question #17:

This question, as modified, asks SBC to identify Section 271 applications in which SBC has cited Ameritech as an example of a CLEC that was obtaining, or in the process of obtaining, services or facilities, or an interconnection agreement, from SBC, and the extent of interaction between SBC and Ameritech regarding Ameritech's use of SBC's operational support systems (OSS).

SBC cited Ameritech as an example of a CLEC in its Missouri, California and Texas applications for Section 271 authority.

In Missouri, SBC cited Ameritech as one of twenty-five companies that, as of then, had fulfilled the necessary requirements to provide local service and as one of seventeen CLECs that passed service orders during the first eleven months of 1998. SBC subsequently learned in this and related merger proceedings that Ameritech's Missouri activity was limited to a cellular-based trial involving service to a few hundred Ameritech employees and family members.

In California, SBC cited Ameritech as one of more than 30 CLECs that, as of February 1998, had satisfied the requirements necessary to provide local service and as being one of 26 operational resellers. In Texas, SBC listed Ameritech as one of 100 CLECs with a signed interconnection agreement as of February 1998. SBC now understands that, in both California and Texas, Ameritech was simply providing service to the facilities of a single customer headquartered in Ameritech's region.

(a) – (b) In SBC's applications for authority to provide in-region interLATA service in Texas, Oklahoma, Kansas, Arkansas and California, SBC has cited Ameritech one of many CLECs that have tested and are able to use SBC's operational support systems ("OSS") in Missouri. The purpose of such references was to demonstrate how SBC provides nondiscriminatory OSS access to CLECs. SBC has also cited Ameritech as one of several CLECs that attended the training necessary to develop an OSS pre-order interface that would be compatible with SBC's DataGate. SBC typically stated that, after Ameritech completed the training session, Ameritech was able to access a production version of DataGate and was able to retrieve data required for the Electronic Data Interchange ("EDI") ordering process.

With regard to EDI, which is an electronic interface that conforms to the Ordering and Billing Forum/Telecommunications Interface Forum ("OBF/TCIF"), SBC has stated that Ameritech began testing SWBT's EDI for resale services in a "live" production mode (to Ameritech's own employees and family members) during November 1997. However, Ameritech never used EDI to process end user resale service orders.

Questions ##18-19:

These questions seek information and documents concerning whether SBC has ever sought to obtain combinations of unbundled network elements in any interconnection agreement, and any documents associated with any assessments SBC has made concerning the utility of using such combinations as an out-of-region entry strategy.

SBC has not sought to obtain such combinations in any interconnection agreement and SBC has not assessed using such combinations as an out-of-region entry strategy. There are no documents in SBC's possession regarding such analyses.

Exhibit 1

Bates Ranges of SBC Documents Produced in Response to the FCC's 1/5/99 Request for Supplemental Information

QUESTION 1(a)

SBCAMFCC01a
000001-003277

QUESTION 1(b)

SBCAMFCC01b
000001-000134

QUESTION 1(c)

SBCAMFCC01c
000001-001864

QUESTION 3

SBCAMFCC03
000001-000738

QUESTION 5(b-d)

SBCAMFCC05b-d
000001-000739

QUESTION 7

SBCAMFCC07
000001-026023

QUESTION 7(c)

SBCAMFCC07c
000001-013799

QUESTION 7(d)

SBCAMFCC07d
000104-006152

QUESTION 8(c)

SBCAMFCC08c
000001-000785

QUESTION 11

SBCAMFCC11
000048-003738

QUESTION 12(b)

SBCAMFCC12b
000001-013306

QUESTION 13(a)

SBCAMFCC13a
000001-000871

QUESTION 14

SBCAMFCC14
000001-002136

QUESTION 14(b)

SBCAMFCC14b
000001-000041

QUESTION 14(c)

SBCAMFCC14c
000010-000443

Exhibit 2

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For Immediate Release

SPRINT LAUNCHES SPRINT ION(SM) NATIONWIDE, OFFERING "FUTURE PROOF" AND EXPANDED FAMILY OF COMMUNICATIONS SERVICES

Sprint is first to deliver to businesses single network for voice, data and video, providing immediate cost efficiencies and enabling more powerful business applications

DALLAS, December 7, 1998 -- Sprint announced today that business customers can begin migrating their multiple voice, data and video networks onto the Sprint Integrated On-Demand Network(SM) (Sprint ION), eliminating worries about technological obsolescence, redundant costs and the distractions of managing multiple communications networks. With Sprint ION services, customers can add functionality and integrate communications capabilities at their own pace - all while yielding savings to their total cost of network ownership (TCO) of 15 to 25 percent.

Beginning in January 1999, large businesses nationwide can purchase a family of consolidated voice and data services onto the Sprint ION platform, realizing improved bandwidth efficiency, flexibility, network performance and security. For easy migration from existing networks, businesses connecting their networks to Sprint ION will have equipment installed on-site that will start them on the path to consolidating multiple networks without having to invest in new wide-area-network (WAN) equipment or software.

With these new services, Sprint is extending its highly efficient and reliable "next generation" network to the customer premises by not only providing, installing and configuring the required equipment, but also monitoring and managing the network as well – at no incremental charge. Consequently, Sprint ION reduces the customer cost of transporting network traffic (carrier bill), in addition to impacting the overall expenses of communications equipment, software and management – elements that industry analysts identify as having significant impact on a business' networking efficiency and total cost of ownership.

"Sprint is the first communications provider to deliver next-generation communications by installing a future-proof platform at business premises," said Michael Franz, President, Sprint Business. "By leveraging the Sprint ION services, the customer need not worry about the complications and expense associated with network upgrades and management of the corporate enterprise - Sprint will handle those for the customer."

For example, Hallmark - the nation's leading provider of personal greeting cards - decided to connect the corporation's multiple communications networks (local/long distance, video, Internet and data) to Sprint ION for strategic business reasons, including simplifying their telecommunications environment, reducing their overall communications costs, and accessing additional bandwidth previously not available. More important however, the company expects to leverage the networking capability of the Sprint ION services to build new and innovative business applications that will create additional opportunities to expand their markets. "Finally someone has developed a service that will help Hallmark maintain its market leadership in the next millenium. We have selected Sprint ION for multiple reasons, but the most immediate is that Sprint ION allows us to introduce to our key stakeholders the technology Hallmark needs to compete in the future," said Jim Miller, Vice President, Information Systems, Hallmark.

"Businesses that view information exchange as vital to their success in the digital economy can rely on Sprint to deliver true integrated communications services," said Susan Sentell, Vice President, Marketing and Product Management, Sprint Business. "By better linking key internal and external partners through the deployment of Sprint ION services, CIOs can now focus on developing new, powerful applications to address core business issues: delivering products faster to market; improving customer service; and attracting and retaining qualified employees."

1999 Initiatives:

Throughout 1999, customers will be able to take advantage of increased Sprint ION functionality and bandwidth efficiency to support growing and changing communications needs. With the initial deployment of Sprint ION services, customers will be able to utilize integrated Internet and data services, such as frame relay and ATM; options for traditional long distance services; as well as optional consulting solutions via Sprint Paranet. Enhancements to be added to the Sprint ION family will include local service, customer desktop control through secure web-enabled software, enhanced network reporting and more traffic information; and value-added services that support collaboration, e-commerce, enterprise resource planning, supply chain management and customer relationship management applications. “Sprint will be announcing partnerships with best-in-class business integration specialists and software developers early next year,” said Sentell. “These partnerships combined with the power of Sprint ION services will support the key business applications customers are looking to deploy to improve their business performance.”

In January 1999, Sprint will roll out the Sprint ION network based on Cisco’s multi-service platform. This architecture will become the foundation for advanced services that integrate data, voice and video over a single network.

“The launch of Sprint ION services underscores the transition from an Old World circuit-switched infrastructure to a New World packet-based architecture,” said Don Listwin, Executive Vice President, Cisco Systems. “We are pleased to be selected as Sprint’s partner to enable the next generation network to meet the strategic needs of business customers today.”

Sprint is a global communications company, at the forefront in integrating long distance, local and wireless communications services, and one of the world’s largest carriers of Internet traffic. Sprint developed and operates the United States’ only nationwide, all digital, fiber-optic network and is the leader in advanced data communications services. Sprint has $15 billion in annual revenues and serves more than 16 million business and residential customers.

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Exhibit 3

News Release

FOR RELEASE TUESDAY, DECEMBER 8, 1998

AT&T signs $180-million local services agreement with financial services firms

Will offer one-stop shopping for full portfolio of local services across the U.S.

NEW YORK – The Securities Industry Association (SIA) and New York Clearing House Association (NYCHA) announced today they have contracted with AT&T to provide their members a full range of local communications services in locations across the United States. The contract covers most major banks and securities firms doing business in the New York metropolitan area.

The three-year agreement will be worth a minimum of $180-million, depending on usage. It expands upon an existing local services contract between SIA/NYCHA and Teleport Communications Group (TCG), which merged with AT&T in July.

AT&T will provide members of both associations a full portfolio of local voice, data and Internet services in New York, Boston and Philadelphia immediately, and in a total of 25 major cities across the U.S. by the first quarter of 1999. AT&T's unified local service offer affords SIA/NYCHA members the advantage of obtaining local service for all their locations from a single provider, instead of negotiating with myriad local phone companies around the country.

Additionally, AT&T will offer a single bill aggregating local service charges from multiple cities and for multiple services, with discounts across all the locations and services.

"AT&T's national footprint and full range of local services make it a natural match for us," said H. Pim Goodbody Jr., vice president of management services for SIA. "Many of our members maintain offices in a number of cities, so being able to work with a single company for a nationwide portfolio of local services is a tremendous benefit."

In addition to traditional local and intraLATA switched and private-line voice services, AT&T also will provide complex local area network (LAN) internetworking services, Internet hosting and connectivity, and ATM-based turnkey data services.

AT&T (www.att.com.) is the world's premier provider of voice and data communications, with more than 80 million customers, including businesses, government and consumers. AT&T runs the world's largest, most powerful long-distance network and the largest wireless network in North America. The company is a leading supplier of data and Internet services for businesses and the nation's largest direct Internet service provider to consumers.

The Securities Industry Association (www.sia.com) brings together the shared interests of nearly 800 securities firms, employing more than 380,000 individuals, to accomplish common goals. SIA members - including investment banks, broker-dealers and mutual fund companies - are active in all markets and in all phases of corporate and public finance. The U.S. securities industry manages the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift and pension plans, and accounts for $270 billion of revenues in the U.S. economy.

The New York Clearing House Association (www.theclearinghouse.org) is the nation's oldest and largest bank clearing house.

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