

I mean to some extent GTE represents a relatively small presence in a wide geographic variety of markets, which is sort of getting closer towards his alternative entry strategy that he was suggesting.

MR. ROGERSON: Okay. Are there any questions from the audience? Quinn Trong?

MS. TRONG: I would just like to hear some comments on what appears to be some inconsistencies between the different positions taken by the applicants.

On the issue of benchmarking, applicants say that the entry out of territory by these BOCs and by GTE allow increases in approaches because they are particularly well qualified to negotiate better interconnection agreements, and then with regard to public benefits in general there is a claim that having this base of anchor customers will facilitate the CLEC strategy and also particularly with regard to GTE that they are well equipped to expand into adjacent areas.

Now, these and other claims from the applicants would seem to indicate that they are particularly well qualified, uniquely well qualified competitors as compared to other companies, other CLECs, so how does that cut to the position on this issue where they say, you know, there is no worry about eliminating these potential competitors?

MR. ROGERSON: Okay. Rich?

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MR. GILBERT: I cannot speak for GTE, of course. I can tell you that I have not seen any evidence that, for example, Ameritech moving into SBC's territory or vice versa would result in extraordinary advantages for that entrant.

Neither Ameritech nor SBC would, if they did that, serve those areas with facilities that they have in region. It would be either reselling existing services or setting up a new plant entirely.

Neither one has a particularly good brand name. It is still the case. It is still the case that most people think that AT&T is their local exchange provider, and so the IXCs have, if anything, better brand name recognition.

At the very least, if that is your view that there is an advantage there in the SBC-Ameritech case, you have to consider all RBOCs, all local exchange carriers, as potential entrants into those markets.

MR. ROGERSON: Okay. We are going to wrap up that session and move on to Session Four then. Session Four is will these mergers have any effect on the ability or incentive of ILECs to raise rivals' costs.

I have asked Michael Katz to first explain what these mysterious code words mean, raise rivals' costs, and then Dennis Carlton will comment on Mike.

MR. KATZ: Thank you, Bob.

I want to be clear about one thing because we are

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talking about raising rivals' costs, and the rivals part I hope is clear, but I think there will be agreement here that the important point is not actually are the firms, the competing carriers themselves, better or worse off. Obviously the carriers care about that quite a bit.

The issue that the Commission should concern itself with is not the harm to competitors. I think we all agree it should be whether there is harm to competition because that is what is going to end up harming consumers. I hope that that is not a point of debate.

What I would like to do is go very briefly to the factual and logical analysis underlying the conclusion that these mergers do pose a threat, and we expect it to lead to a harm to competition. As I go through it, I want to address a couple of things I think are counter arguments that really are misunderstandings of some of the claims.

Let me, as I said, walk through the steps. I think step one is that incumbent LECs possess significant market power in the provision of access services to actual and potential rivals. I want to be clear that in talking about access, I mean that broadly. I mean things like interconnecting the networks, but also making the OSS work a cross system, various forms of originating and terminating access, unbundled network elements.

The fact is the networks have to work together. I

think it is also a fact that they do have market power unless they are worried maybe that that Linex guy is a threat to them, too. He is apparently very powerful, despite being very small. Maybe he is actually a CLEC in disguise.

The other thing I want to point out, because I think there has been some confusion on this, is there are two ways this could happen when they exercise market power. One is by raising prices, and then, of course, you run into the issue of well, is most of this stuff not regulated? I think that is right.

The other is by either denying or delaying or degrading access, and that is the part I think there has been some confusion about because at least personally I am not that worried about access arrangements suddenly getting much worse than they have been.

I think the concern is really what happens going forward with whether new forms of access are made available as quickly as they should or at the quality levels they should, so I think the things to think about really are something like say XDSL and the whole question of the problems with roll out. Are some of these problems strategic rather than inherent in the technology?

Okay. It is not about, which I think has been accused of claiming, that as a result of the merger they are

suddenly going to get, you know, white noise generators and start attaching them to people's lines because I think a lot of that would just be too obvious.

The second leg in the argument is I think that regulation is an imperfect check on the exercise of ILEC market power. I actually had not expected that one to be controversial, but it has.

I want to address again I think something that really is a misunderstanding or just as illogical. The following claim has been put forth by several parties. They said wait a minute. The way this would have to work is the consumers and rivals would see service quality worse than it should be. Wait a minute. If that is true, if everybody in the world can see it, even the lowly end user consumer, then surely the regulators could see it.

What is fundamentally wrong about that argument is it misses the point. Everyone would be able to see poor performance. I think everybody today who looks into it can see the problems with CLEC/ILEC OSS interfaces, or people can see the problems with rolling out XDSL, but that is not the issue from the regulators' point of view. That is what consumers care about. They just said wait a minute. It does not work very well. That is going to affect our choices.

What regulators have to concern themselves with is

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why is it happening, and that is not something consumers care about. No one is going to go to Sprint or AT&T or MCI and say, you know, your service is really terrible, but since you have explained to me that you believe it is actually Bell Atlantic's fault, we will stick with you.

Okay. It is not going to work that way, but that is the kind of thing that regulators have to look at that, and I think that is the really hard problem that is inherent in this and that makes it difficult and in fact impossible for regulation to fully constrain ILEC market power. I think really this is just a corollary to the existence of market power.

The next step that can be exercised I think is to significantly weaken competition. Local and long distance carriers and carriers providing bundles of services are going to be dependent on ILECs for significant portions of their access and that they will be weakened as rivals if that access provided by ILECs is degraded.

Now, you ask what does any of this have to do with the merger, which is certainly a fair question and one I am sure we will be debating for awhile in this session. The reason it has something to do with the merger is there are significant competitive spill overs across ILEC regions.

Now, a couple things that need to go into that. One is that national rivals are important. In fact, we have

been hearing that from the proponents of the merger, and I think there is probably agreement on that that national rivals are the strongest competitive threat to everybody in the market.

I think there also would be agreement that there are significant benefits to national scope. Those benefits come in because there are network effects at the subscriber level. There are network effects in terms of third party application vendors. They want to see a broad network with a broad potential market.

It is harder to put one's finger on, but there are also word of mouth networks that people in marketing will certainly talk to you about. Lastly, there are economies of scale and scope that arise both in development of systems, in development of marketing programs and being able to take advantage of national advertising.

For all of those reasons, you have that competitors want to compete at a national scale, the really significant ones, the other ones that are important, so what that means is that if you are weakened --

MR. ROGERSON: You are going to have to wrap up --

MR. KATZ: Okay.

MR. ROGERSON: -- in 30 seconds.

MR. KATZ: I have one point left. What it means, though, is if you are going to be harmed in one region, that

is going to weaken your ability in the other.

That actually brings up another criticism that has been made of the model or the logic, which is to say well, wait a minute. If you harm someone in one region, will they not just run over? Will that not speed them up in other regions?

I call that sort of the have switch will travel model, which is sort of the little CLEC that in the back of a van or whatever they have their switch. If it does not work one place, it goes to another.

Now, the fact is that is a legitimate, logical argument. It is something that needs to be addressed. I think the answer to that is, though, that the big competitors want to go in nationally. They feel they need to as a viable business, so it really is if they are weakened in one place it is slowing them down and weakening them overall.

Finally, just the last step in this is you do have these competitive spill overs. What the mergers do is they help internalize those. They allow greater coordination among the parties, and that is the mechanism to which you see the harm coming.

MR. ROGERSON: Dennis?

MR. CARLTON: Thank you.

I think Michael has laid out the issues fairly

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clearly, so let me try and respond to several of them.

There is just no reason, in my view, that the fear that this discriminatory behavior arising should stop the SBC-Ameritech merger. The claims that significant discrimination will arise, exists now or will arise, as a result of the merger just have no factual support. I would like to explain that.

I would like to at the outset, though, state quite clearly that the issue is not whether regulation can fully constrain all possible instances of discrimination. This is a merger case. The question is whether this merger will raise the incentive to discriminate.

The whole question of discrimination that Michael raised is something that has nothing to do in particular with this merger or the other one under discussion. It is argument about really whether you think the Telecommunications Act of 1996 was a good idea or a bad idea.

In my view, I think the decision was made correctly that appropriate regulatory safeguards exist not to prevent all possibilities of discrimination, but sufficient safeguards exist so that on net RBOC entry into other services can be expected to benefit consumers. Again, I want to stress the purpose of this proceeding or any decision is not to make life easy for regulators. It is to

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benefit consumers.

Really the primary objection that Michael raised about this merger raising concerns about discrimination is, as he articulated it, that as an ILEC's area gets larger it will have a greater incentive to discriminate. I would like to submit to you that there is absolutely no evidence presented in either his opening remarks or his testimony with Professor Salup to support that theory.

First, let me just return to a point he made. I think it is a correct point. The problem with a lot of arguments about discrimination is that they are detectible. If consumers know they are being taken advantage of, they can certainly report it to the regulators.

Now, I agree that means the regulators have to investigate it, but that is a much different problem than having something secretly occur in the switches that disadvantages one person relative to another. I think it is clear, and I am glad, you know, it is now clear, that that is not the concern. The concern is a detectible harm to a customer, and now a regulator must investigate.

Second, let me turn to evidence for a second. If you look at the evidence about discrimination, what you see is massive entry of CLECs and IXCs. That strikes me as a vote that they are willing to bet on the regulators to protect them from discrimination, that it is not that

serious a problem.

If you look at an area where the Katz-Salup theory should apply in which you should see discrimination, say intralata toll, you do not find it. If you look at another area where you should see the Katz-Salup theory apply, cellular, again you do not find it. The FCC is on record as saying they find the business split about equally between wire line and non-wire line carriers.

Specifically the Katz-Salup theory says after a merger there should be an increased incentive to prevent entry. Well, we have had some mergers. Has anyone investigated whether that has occurred? I do not see any empirical analysis in the Katz-Salup affidavit.

I have done some preliminary work analyzing precisely that question, and the answer is strikingly clear. The answer is no. A statistical study that I have done shows that the amount of entry you see of CLECs, the number of CLECs, is no different than what you would otherwise have expected.

The bottom line is there is no support at all for the theory that as an ILEC gets larger it will discriminate more, just no support at all for that. As far as the theory that new technologies have to be hooked up and that is where questions will arise, I believe correctly, as Michael has pointed out, that is something you have to be concerned

about.

The best example I know of that is the Sprint Ion case. That actual example I think belies the concern. It is my understanding that Sprint has announced that they are signed up to go forward with Ion. They are not concerned about relying on third parties, and, therefore, I do not see this as a serious concern.

Finally, let me make one point. The national/local plan that SBC has embarked on requires SBC to provide in region long distance service. That means it will have to satisfy the 271 checklist.

If SBC is found to have discriminated, what a penalty it will have to suffer. It will not be able to provide in region service. That will be a disaster to SBC's national/local plan. SBC, therefore, will have a lower incentive to discriminate, not a higher incentive, as a result of this transaction.

I guess simply put --

MR. ROGERSON: When you said finally, then I did not say 30 seconds.

MR. CARLTON: Okay. This will be 30 seconds.
Okay.

MR. ROGERSON: You want to simply put one thing?

MR. CARLTON: Yes. Simply put, the goal of regulation is not to make life easy for regulators. It is

to benefit consumers. The goal is not to eliminate all theoretical possibilities of discrimination, no matter how insignificant, without regard to the benefits of the transaction.

There is simply no evidence whatsoever here that this merger, the mergers, will raise the incentive to discriminate against rivals.

MR. ROGERSON: Roger Noll?

MR. NOLL: Let me just briefly say that I want to make two points.

First of all, the Telecommunications Act of 1996 does have a 14 point checklist and, in addition to that, a public interest standard. It is by no means clear the Telecommunications Act is all about the RBOCs expanding into other things. I think it is mainly about introducing competition into the local service or else the checklist and the public interest standard would not be there.

It strikes me this is a beautiful example of a difference in policy perspective that the FCC might have than the Justice Department would have. The Justice Department would never ever in a million years put an anti-trust case about well, if we prevent somebody from being in Market A it makes it more likely they will be in Market B. The best you can hope to in a potential competition argument is to talk about the same market, not a

completely different market.

In the case of the FCC, the strategy here is more I think having competition in local service than it is having additional competition in long distance and enhanced services.

Then when you get to what Michael's point is all about, Michael's point is really not, Dennis, about does the incentive of Ameritech to discriminate against CLECs in Chicago increase if Southwest Bell is part of the same company. I cannot imagine. Maybe it is true there is an effect, but that is not what people are worried about.

What people are worried about is in fact the increased ability and incentive to engage in discrimination if you are in the enhanced services long distance business and you are both the originating and terminating carrier. We do not have any examples of that because we do not have the RBOCs in the long distance based enhanced service area and so there obviously is not going to be any evidence one way or the other.

That means this is another important point. Who bears the burden of proof here determines the outcome. If the burden of proof is on those who oppose the mergers to demonstrate the existence of long distance discrimination being enhanced by the mergers, they are going to be unable to prove it because the opportunities for that

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discrimination in principle do not exist because the RBOCs are not in that business.

If the burden of proof is on the RBOCs to prove that indeed they have competed successfully in long distance without discriminating against AT&T and MCI and everybody else, then they are going to fail that burden to prove, so you cannot really put the question that way.

You have to put it, I think, the way that Michael has put it. I think his way of analyzing it is absolutely right, and it comes down to the case that there is this one important fact. It does enhance the incentive to engage in discriminatory behavior in a dynamic sense, the one that Michael described, if you are both the originating and terminating carrier and if you are in the long distance business, so you can in fact be the person doing the interconnection.

That is a world we are not in yet and so we have to base it largely on theoretical, as opposed to experiential, bases.

MR. ROGERSON: Jeff?

MR. SHEPERD: Very briefly. Two short points.

One, I heard a lot of nos and none whatevers just now from the other end of the table. With all respect, let me say I am the editor of a journal in this field in which we look for evidence and factual testing of hypotheses.

When I hear no and none I think well, that is theory. That is not economic testing based on evidence.

MR. NOLL: I was referring to my empirical study.

MR. SHEPERD: Well, I will stick with what I said.

The other point is that price discrimination, whenever it occurs, and done by a dominant firm does tend to be anti-competitive. It may be detectible, but after some lag. It may not be easy to cure it, but in general it tends to be anti-competitive.

MR. GILBERT: If I could respond?

MR. ROGERSON: Yes. Rich Gilbert?

MR. GILBERT: Roger said that we have no experience with RBOCs on the origination and terminating end of long distance calls. I think that is wrong. We have lots of experience. They are called intralata toll calls. That is the case where the RBOC is both on the origination end and on the termination end.

The experience that I am aware of, for example, in the Pac Bell region the Pac Bell share of the intralata business toll market is under 50 percent, and Ameritech, I understand their share of the entire intralata toll market is around 65 percent. In Pac Bell, I say business because we do not have pre-selection for residential yet. That is I think a regulatory issue.

I think that is very, very strong evidence that

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there is not a problem. That is where you would expect it to occur. There have been no complaints in that area.

Another thing I would like to mention is that Sprint has recently announced that they have secured access for their broad band metropolitan access networks in a number of states, including SBC states. They seem to be quite happy with it.

For what it is worth, I think it is worth noting that the Texas Public Utility Commission has announced that SBC has satisfied ten of its 14 checklist items. I am not sure that is directly related to this discrimination issue, but I think it would be very hard to look for any evidence here.

MR. ROGERSON: Okay. I cannot resist giving Roger a chance to respond to the point that there is evidence in the intralata market, interstate intralata markets. In particular, the evidence is that 50 percent of the market goes to someone else.

MR. NOLL: It is obviously true that the fraction of the market accounted for by the interexchange carriers intralata has grown substantially, particularly since the passage of the Telecommunications Act of 1996.

Rich, it is just completely false to say there has never been a controversy about intralata access. I mean, I do not know how to evaluate it. I do not play the game of

advocating one side or another.

I do know that in almost every state there has been constant battles for ten years on this issue. It is also the case that the local exchange carriers have had to be forced through long-term regulatory proceedings to do anything to accommodate intralata competition.

I mean, it is one thing to say, and I agree with you completely, has it been possible through a guerrilla war that has lasted for 30 years for the interexchange carriers to get a significant fraction of the intralata market, especially in some states that have relatively large and sophisticated regulatory commissions. The answer is yes.

Is it true that this all just sort of happened easily and ubiquitously without a fight and that the ILECs and the RBOCs in particular were just real, real happy to accommodate this and do whatever the IXCs liked? That is completely fatuous. No one could possibly believe that is true.

MR. GILBERT: That is not the point. The issue is does the merger contribute to a regulatory problem? Does the merger make it worse?

I think if you look at intralata toll, for example, I would be very, very surprised if you saw any correlation between the size of the intralata toll calling that is controlled or on which there is control of

origination and termination by an ILEC and any pattern of disputes over the terms.

MR. LITAN: Could I just interject? We have a battle of speculations here. We started out this morning with the claim that with a nationwide footprint there were enhanced incentives without evidence that there would be a pro-competitive effect.

We are now ending the discussion with an argument that there are enhanced incentives with an argument about evidence that you will have the opposite effect.

I suggest at a minimum they cancel each other out and that right now where we are left with is no shred of evidence that this merger will be pro-competitive. Then the question is is that enough to get you through, and that becomes a legal question.

MR. CARLTON: Could I just say something? Can I just address that?

I would like to actually agree with something that Jeff said. When he was saying no, no, no, it is speculation on both sides, I think he was referring to you just do not want to have a battle of theory saying on the one hand, on the other hand.

The point I was trying to make, and maybe I was not clear, is that if you look at the evidence, if you do the evidence and look at the prediction of the Katz-Salup

theory based on the mergers that have occurred in the past, I can say there is no evidence. I underline no.

I was not saying based on theory on the one hand, on the other hand. I think there is evidence. I think intralata toll provides evidence. I think cellular provides a counter example that discrimination is not to sever as to impede.

There is no allegation I think by anyone here -- I do not know; I will speak just for myself -- that regulators should go home. No one is saying that regulation is not important still in these areas. That is not the issue.

The issue is does this merger raise the likelihood of discrimination, and is there any evidence to support it. The evidence I have looked at, which I think is exactly the relevant evidence to look at, says no.

MR. ROGERSON: Right. Okay. Michael Katz, what about that?

MR. KATZ: I actually want, and I have been waiting a long time, to just address a bunch of the things that Dennis said, some of them very quickly.

The point about this is harm that people are going to see again I think comes back to people will see the poor performance. How are they going to know? How are people going to know what are the problems with OSS making it work? How are people going to know the problems with XDSL?

Now, on a couple of these things, the intralata toll, the cellular and the points about Ion, I am tempted to say especially to Rich, since we are both from Berkeley, that is your reality.

(Laughter.)

MR. KATZ: I will talk about mine. Apparently Dennis talks to different Sprint people than I do. I thought I probably talked to more of them since they paid me to come here. One of the reasons they paid me to come here is in fact they are worried about making sure that they get good access.

Rich talked about signing up agreements for the BMANs. I think that is not so surprising. I think there is more competition if you are talking about that kind of access. I think the big issue, though, is XDSL, and I want to point out that XDSL is not just about saying that that is small customers and it does not apply to large customers because in fact what we are talking about here is national entry, and a lot of large enterprises, a lot of large customers, have a lot of small sites so access services like XDSL are relevant for those markets as well.

I will not go into the details of Sprint's concerns about these things. I mean, the appropriate way to address that, it seems to me, is for the Commission to meet with Sprint executives and, as I mentioned earlier, figure

out a way to talk to them about it that is also kept confidential since it obviously involves sensitive strategic things.

The point about intralata toll and cellular. I disagree with Roger. It certainly has not been an uncontroversial issue. Certainly our example I think of problems with cellular interconnection and certainly with intralata toll, I mean, Rich has labeled some of it as just a regulatory issue, but you could say that about all of these threats. They are just a regulatory issue. The fact is the ILECs have not embraced intralata toll competition with open arms.

In terms of Dennis' point about massive entry, the fact is there may be a bunch of them, depending on how you count the numbers, but it has still been on a small scale.

Dennis made the point about that they do appear to be betting on regulators. In my notes I make a point the other way, that the ILECs also seem to be betting on regulators because in numerous instances they have tried various forms of discrimination and gotten caught where they have settled the cases, so apparently they are also betting they can fool them.

The 271 checklist. I actually think that is an example. The other way the argument has been made, why would the ILECs dare do bad things and keep out of

interexchange? Well, apparently they have not been too tempted so far. None of them have satisfied the checklist.

I think it is not so surprising; at least the data I have looked at have shown that the margins are much bigger if you can stay in local and avoid competition than if you get into long distance, but have to give that up.

Now the really big issue. Actually, one thing before I get to that so this way Bill cannot shut me up. On the balancing point, I actually think that Bob is wrong in one sense. If you are going to talk about stopping the merger or letting it go through and those are the only choices, then it is absolutely right.

I think everybody here agrees you have to balance all the effects, and you have to weigh which ones you find plausible, but that is not the only option open to the Commission.

VOICE 2: No. There are conditions.

MR. KATZ: There are the conditions, which then can address things without balancing them. You have to do a balancing sort of within it to make sure the conditions do not cause their own problem, but it is a narrower inquiry.

As to the stuff about the evidence, I want to raise a bunch of points, and then I will stop. First off, I would point out that we have been asking for evidence. Well, is it really true that these mergers are going to

allow you to go national? Everybody has said no, no. The previous mergers were too small. Well, they make just the same argument here.

If you look, the number of access lines controlled by one party, just to throw a couple numbers in SBC's case, it is going from 19 to 30 percent, Bell Atlantic from 22 to 33. There is significant increases, and people are debating what constitutes significant, in the amount of traffic that will terminate in region if these new expanded regions go through.

I would point out that, you know, the mergers have been comparatively recent. It makes time series difficult just because you have limited data. It is also difficult because to do it right you need to take into account industry trends.

Rich Gilbert and Bob Harris had a filing that said look. If I got it right, it said the number of co-location agreements has gone way up post merger. That is true, but it has also been going up in the rest of the industry. What one needs to do is correct for industry trend.

Now, I have looked at some stuff very preliminarily, and to try and get around this problem of having a short time frame we have looked at some cross sectional comparisons to ask well, do small ILECs seem to perform better or worse than large ones? Is there evidence?

I will tell you the studies are preliminary and some of the results are mixed, but it has also been coming out that by some rather imperfect measures the small ILECs, for instance, net before the merger of Cincinnati Bell, have had more entry on adjusting for market size.

I think that doing the empirical work here is very difficult, but I think it is wrong to say oh, this all supports the merger and shows it is fine. I think in fact there is evidence there.

I think there is reason to believe that these mergers really are different from what we have seen in the past because they are getting so much larger, and that matters both because of the internalization and also because of the concerns the rivals face because the national rival needs to be able to cover a given percentage of the market.

I think it is hard to predict these effects. I agree with that. It makes it a difficult task for regulators, but I do not think that means you can avoid doing that and forming the theory and I think then testing every part of it you can.

I think the other way to do that is to ask each of the steps in the logic. Is that right? Do they have market power or not? Talk about the forms of access where they do. Is national entry important? How worried are the competitors?

Those are all things that are being done, and the FCC can do more of talking to people in the industry.

MR. ROGERSON: Bob Crandall?

MR. CRANDALL: First of all, the intralata debate. It seems to me it is obvious that all of the LECs would like to keep their intralata monopolies as long as they could and, therefore, are opposed to one plus equal access. The question really is once you have one plus equal access, is there any evidence that subtly discriminatory policies allow them to obtain a disproportionate share?

Secondly, Roger, why is the wireless example, the cellular example, not dispositive evidence or at least good evidence that even when they originate and terminate the calls they are unable to engage in subtle discrimination that, for instance, in the most recent Spectrum cap filing I just looked at the other day one of the advocates pointed out that Ameritech, after all these years, is number two in cellular in Chicago?

You would think that given the number of people it has working in Chicago, just their own subscriptions would put them over the top there, but they are still number two. Why is that not evidence that they are not engaging in subtle discrimination?

MR. NOLL: Okay. With regard to the subtle discrimination point, the obvious point is sort of just like

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Michael said. To do this thing right, you have to take into account everything it affects, market shares and prices of the firm.

You know, actually I think it is the FCC's staff that is the only hope here because they have all the data. They have a lot of resources, and they do not have to be advocates.

Here is sort of what we know. Number one, we --

MR. CRANDALL: You have graduates students, though, Roger.

MR. NOLL: Yes, but I have to pay them, and that is harder.

Number one, let's look at long distance per se. The argument in favor of allowing the RBOCs into long distance is that in an industry in which the former monopolist has approximately half of the market and a couple of other large competitors have about 40 percent of the rest and there is a bunch of little, tiny guys that account for the rest, it still is the case we do not have real competitive pricing.

It still is the case that about a third of the customers accounting for something on the order of five to ten percent of the calling pay the high book price instead of the actual price you can get from minimal effort of calling around for competitors.

The argument of the RBOCs, which is correct, is that probably if two or three RBOCs were also in the long distance business as facilities based carriers or as really aggressive resellers that there would be more efficiency.

Yes, competition has had benefits for consumers in long distance, but the market structure is not sufficiently competitive that it has driven the price down to something like a competitive price.

Then we say okay, what is going on in intralata toll? Well, in intralata toll the best we can find, the very best we can find, is something that looks sort of like long distance. That is to say the incumbent local exchange carrier has half. In the vast majority of the country, it is much more than that.

Secondly, on a mileage based basis price cost margins are higher for intralata toll than they are for long distance, so if anything that market is less competitive than a long distance one.

Now we ask the magic question why? Well, it could be that it is just a superior and wonderful efficiency, right, of the local exchange carriers. That is possible. What we need to do is actually figure it out if they really do have some gain here, but the reality is the prices are higher, not lower. If they really did have superior efficiency, we would expect the intralata toll prices on a

mileage based basis to be lower, not higher, than long distance.

Finally, with regard to the cellular story, the crucial fact here is yes, it is the case. You can find examples of specific RBOCs that in specific cities are not the dominant cellular carrier, but in most cases it goes the other way. The vast majority of cases it goes the other way.

It is in fact the local exchange, the large local exchange carrier cellular company that has the largest amount of market share and that makes the most profits.

MR. ROGERSON: Rich Gilbert?

MR. GILBERT: Just briefly. I do not see, Roger, why intralata toll or any telecommunications service should be priced by the mile. The wires are there. Electrons move. They do not --

MR. NOLL: The reason I said per mile is because --

MR. GILBERT: -- consume a lot of gas.

MR. NOLL: -- it actually favors the RBOCs to make it on a mileage based basis. If I do it on a total call base basis, then the difference is even larger.

MR. ROGERSON: Okay. I am beginning to get worried that if we wait any longer we will be debating to an empty room. We have reached nearly 12:45 p.m., and I think

the discussion has been extremely productive. We have all learned a lot.

I would like to thank all of the panelists for their really insightful comments and I think for really objective comments, too. I think there was a lot of agreement among all sides here on all sorts of issues, and it really clarified, you know, what it is we have to investigate.

Finally, before we close I want to particularly thank two of our senior staff economists who are working full-time on these ILEC mergers, Pam Magna and Marilyn Simmon, who are at the front here who very graciously took a number of days out of their schedule analyzing these mergers to help me organize the round table. They did just a first rate job, and I really appreciate it, so thank you very much.

Thank you all for coming.

(Applause.)

(Whereupon, the round table was concluded.)

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I do hereby certify that the foregoing transcript was typed by __Karen Stryker__ from a tape recording furnished by the FCC, and that said transcript is an accurate record of the tape recording provided by CACI to the best of my ability.

Date: February 8, 1999



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