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Before the

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

SBC Communications Inc., SBC Delaware Inc., Ameritech Corporation, Illinois Bell Telephone Company d/b/a Ameritech Illinois, and Ameritech Illinois Metro, Inc. Joint Application for Approval of the Reorganization of Illinois Bell Telephone Company d/b/a Ameritech Illinois, and the Reorganization of Ameritech Illinois Metro, Inc. In Accordance with Section 7-204 of the Public Utilities Act and for All Other Appropriate Relief	))))))))))))	ICC Docket No. 98-0555

Rebuttal Testimony

Of

Don S. Samuelson

On behalf of

DSSA
and The Neighborhood Learning Networks

December 18, 1998

Q. Please state your name, position, and business address.

A. My name is Don S. Samuelson. I am President of DSSA. My business address is 310 N. Milwaukee Ave., Lake Villa, IL 60046.

Q. Please summarize your educational background and professional experience?

A. I graduated from Dartmouth College in 1962, served in the Peace Corps in Nigeria from 1962 through 1964 and graduated from the University of Chicago Law School in 1967. From 1967 through 1977 I worked as an associate attorney at Kirkland & Ellis, the Assistant Dean at the University of Chicago Law School, the Assistant Director of the Illinois Housing Development Authority and the Assistant to the President of the Inland Steel Development Corporation. For the past twenty years, I have been working through DSSA in the fields of government assisted housing, neighborhood redevelopment and in the creative use of instructional programs and computer learning centers to provide service enriched environments in government housing to make the housing transitional for its residents and a positive contributor to its surrounding neighborhoods.

Q. To whose direct testimony do you now offer rebuttal and comment?

A. I now offer the following rebuttal to and comment on the direct testimony of Charlotte F. Terkeurst offered to the Illinois Commerce Commission on October 28, 1998.

Q. What rebuttal and comments do you have?

A. Throughout Ms. Terkeurst's testimony before this Commission, she stresses the obligation and need of public utilities in the telecommunications sector to educate the customer. For example, on page five of her testimony, she states that "local exchange companies must be mindful of their continuing public utility role in educating customers."

She rightly points out that educating the consumer is an integral part of improving quality of service. On page 11 of her testimony, she notes that "[w]hile perhaps not as obvious, customer service and education are important aspects of service quality." But Ms. Terheurst does not appreciate the full implications of her important insight. While she limits her discussion to actual customers of telecommunications services, the logic and force of her position is equally applicable to the general public and all future potential customers of telecommunications services.

Quality of service in the telecommunications sector can not be achieved by simply making new digital services available to the general public. The public must be trained and educated in the use and function of these new services. Otherwise, these new services will remain dormant and unused. Unless these new digital services are widely used, however, they can not contribute to any improvement in quality of service in the telecommunications sector.

Of particular concern are those members of the general public who lack the education and skills to efficiently and productively employ the new information and communication technologies that form the core the new digital services being deployed by the telecommunications sector. This difference in skills, training and education that separates the digital "haves" from the digital "have-nots" is often characterized as the DIGITAL DIVIDE.

Thus, the underlying logic of Ms. Terkeurst's position and the significance of her insight into the inextricable link between education and quality of service in the telecommunications sector lead inexorably to the conclusion that any merger in the telecommunications sector should further improvements to quality of service by mitigating the digital divide.

Q. Is there a digital divide in the Chicago area that requires mitigation?

A. Yes, there is a digital divide in the Chicago area. On the one side are those that have the skills to use the computer and other information and communication technologies in their work and schooling. They are "online." They use computers in their work. They use the Internet and email. Their skills help them in moving along in their careers into higher paying jobs. Their skills are in demand. In fact, there are not enough of them to meet the needs of Chicago business. The digital “haves” see bright futures for themselves.

On the other side are the technology "have-nots." They don't have the technology skills to work in the new office and manufacturing work environments. They haven't been working in jobs where those skills were taught or developed. They may have finished their schooling before computers skills were being taught. Or their schools may not have had the computer equipment and instructional programs to develop those skills. There is a "disconnect" between the skills of the technology "havenots" and the demands of job markets. Their futures are not so bright. This is a problem for us all.

Q. What are the implications of the digital divide in the Chicago area for the SBC/Ameritech merger?

A. The Illinois Commerce Commission should approve the SBC/Ameritech merger only if that merger would significantly mitigate the digital divide in the Chicago area.

Q. Are there any reports addressing the digital divide in the Chicago area?

A. Yes, there is an excellent report by the Metropolitan Planning Council entitled *Putting Our Minds Together, The Digital Network Infrastructure and Metropolitan Chicago*. The Report explains that schools, libraries, computer learning centers and community networks could all be vehicles to promote and advance computer and technology skills and capacities in all parts of the Chicago economy. These new technologies should be used for workforce development and training, developing workers with the skills to enable Chicago area businesses to compete in the 21st Century marketplace. Finally, in the discussion of the digital divide, the report emphasizes the special effort needed to bring ICT capacities and skills to the disadvantaged populations and areas of the region. This report is included herein by reference and is appended hereto as Exhibit A.

Q. Are there any current initiatives addressing the digital divide in the Chicago area?

A. Yes, a Department of Education Challenge Grant was awarded in September of 1997 to the Chicago Public Schools in partnership with the Chicago Housing Authority, the Department of Catholic Education and the Urban League. It was one of 15 winners out of 800 applicants. A very significant achievement.

Chicago's proposal was that two high schools and neighborhoods (Wells High School and West Town, King High School and Grand Boulevard) would be used as beta sites to illustrate how inner city neighborhoods could create skilled residents in "smart neighborhoods" by having an advanced technology "hub" at the high school, programs to teach teachers to use and to teach technology and a "satellite system" of computer learning centers in HUD and public housing, churches, settlement houses, boys and girls clubs, senior centers, parks, libraries and other community resource centers. Computer access and training would be everywhere in the community, places open in the afternoons, evenings and weekends when schools were closed. The objective would be to create "neighborhood learning and employment networks."

In the first year Wells/West Town and King/Grand Boulevard would be the beta communities. Four more high schools and neighborhoods would be added the second year. And the experiences, programs, funding sources and templates developed in the first six neighborhoods would be could be collected and developed into model programs that could be "rolled out" throughout the City in the last three years of the Grant.

The private sector was to provide $10M in funds to match $6M in DOE funds. There was a recognized need to draw upon various federal programs, along with investments by the private sector, to finance technology-informed neighborhoods throughout the City.

The program's objective was to involve parents in the training of their children, to move education beyond school walls and limited time periods into the community and to connect schooling and education with lifelong learning and workforce development. .

Q. What conditions could be placed on the SBC/Ameritech merger to ensure that this merger mitigates the digital divide in the Chicago area?

A. Analogous concerns were addressed by conditions placed on the SBC/Pac Tel merger in California. There, public interest groups intervened to create an Agreement and Community Technology Fund between SBC, Pacific Tel and coalitions representing 134 individuals and organizations. The Agreement provided that the merged companies would underwrite an independent

Technology Fund at the rate of $5M a year for ten years ($50M) to promote the interests and meet the needs of "disadvantaged" communities in California.

The Agreement also provided for the creation of a Research Center to advance consumer interests, an increase in charitable contributions, increased employment and contracting with minorities and the disabled, the maintenance of headquarter functions and jobs in California and the creation of a challenge fund to increase public purpose contributions by other telecom providers. The disadvantaged communities were to be protected.

These were the essential terms of the Agreement made by SBC in California on November 10, 1997. Analogous conditions, adapted to the circumstances of Illinois, should be placed the SBC/Ameritech merger to ensure that it mitigates the digital divide in the Chicago area.

For example, the contributions could be made to a foundation oriented to the gathering and dissemination of experiences and best practices from throughout the world, and to education and training. It might make sense to have the foundation Board consist of a majority of community members from the City, the County and downstate as well as representatives of Ameritech/SBC and other telecommunications providers in the State. One possibility would be to have three community representatives from Chicago, three from the collar counties and three from downstate, together with four representatives from Ameritech/SBC and four from the rest of the telecommunications industry. The overall objective of the foundation would be to make sure that everyone in the State of Illinois was adequately informed about the possibilities that could be provided in the use of ICT skills, for school, for work and for personal convenience. There would be extensive use of the media, workshops, web sites and other technology tools to make sure that everyone in the State was aware of how people like themselves had benefited from training and the use of these new technology tools.

It's important to remember that technology "have-nots" can become technology “haves,” customers for whom telecom services could be valuable and used if the services were coupled with instruction and training in how ICT skills and capacities might make meaningful differences in the their lives.

Q. Do you have any closing comments?

A. The SBC/Ameritech merger, if conditioned wisely, could be enormously important in helping the disadvantaged parts of our metropolitan region to prepare for the opportunities in the 21st Century. It took a long time for the "have-nots" to assemble land in an agrarian economy and capital in the industrial economy. These days, in the information economy, the "catching up" can be achieved more quickly. But we need to pay special attention to explaining the uses of technology to the disadvantaged sectors of our regional economy, the folks currently on the wrong side of the digital divide.

Dated: December 18, 1998

NEIGHBORHOOD LEARNING NETWORKS	DSSA
BY: ________________	BY: ________________
DON S. SAMUELSON,	DON S. SAMUELSON,
Agent	Owner DSSA
310 N. Milwaukee Ave.	310 N. Milwaukee Ave.
Lake Villa, IL 60046	Lake Villa, IL 60046
(847) 356-7800	(847) 356-7800

VERIFICATION

STATE OF ILLINOIS)
) ss
COUNTY OF LAKE)

DON S. SAMUELSON, being first duly sworn upon oath, deposes and states that he is the owner of DSSA and the agent for Neighborhood Learning Networks, and that he has read the foregoing Petition for Leave to Intervene in ICC Docket No. 98-0555 and knows the contents thereof; and that to the best of his knowledge, information and belief, based upon reasonable inquiry, the said contents are true and correct.

____
DON S. SAMUELSON
DSSA

____
DON S. SAMUELSON
NEIGHBORHOOD LEARNING NETWORKS

SUBSCRIBED and SWORN to before me this 18th day of December, 1998.

____
NOTARY PUBLIC

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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PROOF OF SERVICE

The undersigned, being duly sworn states that he caused a copy of the Rebuttal Testimony to be served upon the parties on the attached service list on December 18, 1998, before 5:00 p.m., by depositing copies in the U.S. Mail, first class postage prepaid.

Don S. Samuelson
DSSA
310 N. Milwaukee Ave.
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(847) 356-7800

SUBSCRIBED and SWORN to before
me this 18th day of December, 1998.

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NEIGHBORHOOD LEARNING NETWORKS' REPLY BRIEF

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Neighborhood Learning Networks, Inc. and DSSA

March 11, 1999

Synopsis: A growing "digital divide" separates technology "haves" from "have nots." The proposed merger will widen that gulf and could jeopardize Illinois' place in the increasingly networked economy. The ICC should direct that the merger be conditioned on Ameritech Illinois first satisfying the FCC's local competition checklist, protecting Illinois consumers generally. Half the merger savings should then be allocated to extending the benefits of telecommunications technology to all Illinoisans, creating new markets and broadening the base for economic growth in all parts of the state.

SUMMARY OF THE ARGUMENT

Illinois is the only state remaining with the power to influence the proposed terms of the SBC/Ameritech merger. In exercising this power, the Commission should be guided by the Illinois General Assembly Findings that "universally available and widely affordable telecommunication services are essential to the health, welfare and prosperity of all Illinois citizens," and that there should be "the reasonable and timely development of effective competition in all telecommunication service markets." The Commission should evaluate the merger in light of these goals--not just the narrow reading of the Section 2-704(b)'s reorganization criteria SBC discusses--and should use its broad authority to promote the public interest and convenience.

It may be true, as the SBC brief states, that "Ameritech now faces unprecedented new challenges in the profitable core of its operations: in-region service to business customers." SBC's brief also states, with some mystery, that without the merger there is the prospect that residential customers will be "in danger of higher rates and lower quality service." Why should this be the case? In an economic sector where advances in technology usually reduce prices and increase quality, the Commission must protect against these dangers. It needs to foster an Illinois market where the benefits of telecommunications competition, anticipated by the Legislature, are available to small businesses, residential customers, and the disadvantaged--not just to large companies in central business districts.

Given the substantial evidence in the record that the SBC/Ameritech combination of resources and network control will reduce competition in Illinois, the Commission should direct that threshold competitive practices be in place <u>before</u> it approves the proposed merger. This can be accomplished most effectively, and without the "regulatory micromanagement" SBC criticizes, by requiring SBC/Ameritech to satisfy the Commission that it has complied with the TA '96 Section 271 checklist in Illinois--as a prior condition to approval of the merger.

The savings provision in Illinois' utility merger statute, requires the Commission to determine the amount of the "savings" resulting from the merger and to allocate those savings among shareholders and ratepayers. Ameritech stockholders are receiving a $13.2 billion premium from the merger. They are well taken care of. Residential and small business users, on the other hand, face the prospect of a less competitive market for telecommunications services. Fairness thus dictates that the savings should be distributed to ratepayers in the form of lower rates, technology education and diffusion programs, and the development of enhanced products and services.

The competitive market resulting from Ameritech Illinois' satisfaction of the Section 271 checklist will provide the greatest service and rate protection to ratepayers. However, in Illinois, there are large numbers of technology "have-nots," "know-nots," and "access-nots" that are marginal ratepayers or have no telephone service at all. Telecom technology can bring them into the system. Illinois' "digital divide" is wide and growing. Special programs related to awareness raising, consumer education, training and access are needed to connect these disadvantaged market segments to the benefits and opportunities of a competitive telecommunications market. A very substantial multi-year program was developed in California to achieve these objectives. The Commission should establish a similar program for Illinois.

I. SBC HAS NOT PROVEN THAT THE MERGER SERVES THE PUBLIC INTEREST

Earlier this year the Chicago Tribune editorialized that SBC/Ameritech should make the case for why their merger is in the public interest. This case has not been made.

A. SBC Has Not Shown That The Merger Will Benefit Broad Customer and Public Interests

In the opening section of its brief, SBC enthuses about Illinois as the "headquarters for both global industrial concerns and the telecommunications companies that serve them." (SBC at 4.) It notes that 41 of Fortune 500 companies are headquartered in Illinois, and that many other of the world's largest companies have extensive operations here. SBC quotes the FCC as "recognizing" that "only a handful of major competitors world-wide" will be positioned to meet the complete global telecommunications needs of national and transnational business and institutional customers. "The merged SBC/Ameritech," it promises, "will rank among the few enterprises with the resources, scale, and international presence to join their ranks." (SBC at 4-5.)

SBC says little, however, about Ameritech's other customers. Nowhere does it attempt to show with respect to each of the major residential and small business market segments how the merger would serve those customers' interests. SBC warns that Ameritech's competitors have ignored smaller businesses and less profitable residential customers. But SBC offers no support for its conclusion that without the merger there will be "higher rates and lower quality service, [while] with it, there will be an explosion of new opportunities and service for consumers within and outside of Illinois." (SBC at 6.) Lower rates and better service for <u>all</u> Illinois ratepayers, let alone an "explosion of new opportunities," are not among SBC commitments to the Commission. (SBC at 15-17.)

B. SBC Does Not Deny That The Merger Will Exacerbate the "Digital Divide" Between Technology "Haves" and "Have-Nots"

SBC offers few assurances for the rest of Ameritech's customers. Its discussion of the merger's impact on average residential customers and small businesses is superficial. Disappointingly, it does not even acknowledge the interests of disadvantaged and underserved consumers. Illinois already ranks with Mississippi and Louisiana near the bottom in overall telephone coverage--nearly 10% of the state's residents still lack basic telephone service. The Metropolitan Planning Council report cited in our initial brief concludes that aggressive mitigation of the technology divide is one of the four imperatives for propelling the area's digital economy. SBC offers no plan for addressing this problem.

The merger, moreover, further entrenches the incumbency of a single local exchange carrier, concurrently diluting management focus on Illinois and shifting decision-making to Texas. The problems predicted by the GCI and other intervenors will be visited most detrimentally on those still outside the technological loop. When merged, Ameritech will have to justify infrastructure investments to SBC, presumably based on existing demand and company priorities issuing from Texas. At this point it is therefore the ICC that must protect the interests of the technology have-nots in Illinois, those on the wrong side of the digital divide. See Neighborhood Learning Networks' brief filed February 24, 1999, the December 18, 1998 rebuttal testimony of Don S. Samuelson, and the Metropolitan Planning Council's October 1998 report, "The Digital Network Infrastructure and Metropolitan Chicago" (found at www.metroplanning.org).

C. A Technology Gulf Not Mitigated By Competition Is Contrary to Illinois Public Policy

The Illinois General Assembly plainly states the principles that should guide the Commission: universally available, widely affordable, competitive telecommunications services in all markets. The Legislature finds in Section 13-102 of the Public Utilities Act:

> (a) universally available and widely affordable telecommunications services are essential to the health, welfare and prosperity of **all Illinois citizens**; . . .
>
> (d) the federal Telecommunications Act of 1996 established the goal of opening **all telecommunications service markets** to competition and accords to the states the responsibility to establish and enforce policies necessary to attain that goal;
>
> (e) it is in the immediate interest of the People of the State of Illinois for the State to exercise its rights within the new framework of federal telecommunications policy to ensure that the economic benefits of competition in **all telecommunications service markets** are realized as effectively as possible; . . .
>
> (g) protection of the public interest requires changes in the regulation of telecommunications carriers and services to ensure, to the maximum feasible extent, the reasonable and timely development of **effective competition in all telecommunications service markets**. (220 ILCS 5/13-102; emphasis added.)

The General Assembly declares the State's telecommunications policy in Section 13-103:

> (a) telecommunications services should be available to **all Illinois citizens** at just, reasonable, and affordable rates and that such services should be provided as widely and economically as possible in sufficient variety, quality, quantity and reliability to satisfy the public interest; . . .
>
> (f) development of and prudent investment in advanced telecommunications services and networks that foster economic development of the State should be encouraged through the implementation and enforcement of policies that promote **effective and sustained competition in all telecommunications service markets**. (220 ILCS 5/13-103, emphasis added.)

The proposed merger does not advance these objectives. Nor does it satisfy the previously discussed statutory tests: Sections 7-204(b) requires the ICC to find that the proposed reorganization will not adversely affect Ameritech's ability to perform its duties; Section 7-102(i) calls for an ICC determination that the public will be convenienced by the merger. 220 ILCS 5/7-204(b) and 7-102(i).

The Illinois Supreme Court accords the ICC considerable discretion in evaluating whether the public interest will be served by transactions involving utilities, including consideration of whether alternatives to the actions proposed would better achieve the "optimum public good." Illinois Power Co. v. ICC, 111 Ill.2d 505, 490 N.E.2d 1255 (Ill. 1986). Section 7-204(f) permits the ICC to impose "terms, conditions or requirements" on any merger. Section 7-102(i) likewise allows the ICC to attach "such conditions as it [ICC] may deem proper." As explained below, the Commission should use this authority to safeguard local telecommunications competition in Illinois and to insure that ratepayers and the public generally share in the benefits of the proposed merger.

II. THE ICC SHOULD DIRECT AMERITECH ILLINOIS TO COMPLY WITH SECTION 271 AS A MINIMUM CONDITION TO SAFEGUARD LOCAL COMPETITION

A. The Federal Telecommunications Act of 1996 Set The Goal Of Opening All Telecommunications Markets To Competition

The Telecommunications Act of 1996 set the goal of opening all telecommunications markets--including local markets--to competition. 47 U.S.C. §§ 251 et seq. Our General Assembly recognized and endorsed this goal in amending the Telecommunications Article of the Public Utilities Act in 1997. 220 ILCS 5/13-102(d). Because of the local incumbents' inherent conflict of interest in providing network access to new competitors, TA '96 offers a statutory incentive to local exchange carriers. The bargain is that local exchange carriers that open their markets to competition will in turn be allowed to compete on long distance service. Section 271 is the FCC's checklist for determining whether a local market can be considered open to competition. The region served by Ameritech Illinois clearly is not. The ICC should require Ameritech Illinois to satisfy that checklist before it approves the merger with SBC.

B. Before Any Merger Is Approved, The ICC Should Lay The Groundwork For Local Telephone Competition

The Ameritech Illinois region is not now open to local competition, and the record is replete with evidence and argument that after the merger the situation is likely to get worse. This necessitates ICC action on two fronts: (1) enforcing ground rules that facilitate local competition; and (2) looking out for vulnerable market segments and populations that are rapidly being left behind.

First, the ICC must make sure that the market functions so that all customer groups receive competitive service, both in terms of quality and cost. A key to this problem is assuring that competitive local exchange carriers are able to access the Ameritech network in a fair and non-discriminatory manner. Examples of interconnection roadblocks are regularly reported. The Chicago Tribune Business Technology section noted earlier this week (March 8, page 4) that:

> In Chicago, for instance, MGC [a CLEC] has had disputes with Ameritech which doesn't want it to install advanced equipment in its central offices where MGC hooks into Ameritech's network so it can connect with customers by leasing copper lines that Ameritech owns.

A representative of MGC is quoted in the article as saying:

> We now have equipment the size of two PCs that can do what a $4 million switch can do. . . and Ameritech doesn't allow us to install it because it says that regulations don't require it to.

These kinds of innovations are essential to Illinois' success in a technology driven marketplace. Section 271 compliance by SBC--in Illinois, to the satisfaction of the Commission--is an effective way to accomplish this objective.

ICC action is also needed to assure that broadband capacity and advanced telecom services are not limited to Loop area businesses, while Chicago neighborhoods, average suburban markets, and Downstate cities and rural areas are left unconnected. There should be a plan--and on effective reporting and compliance system--to encourage dispersion of broadband connectivity and advanced telecom services. Ameritech managers making infrastructure investment decisions (soon to be guided from San Antonio) need to be freed from the rigid application of return-on-investment criteria based on short term and current demand. The alternative is an Illinois telecom landscape where some get richer and everyone else--and the economy as a whole--gets left behind.

C. Section 271 Compliance Is The Least Intrusive Mechanism For Protecting Competition in Illinois

Virtually all of those participating in the hearings and briefing on the proposed merger have urged the Commission to impose far-reaching conditions as a part of any approval. AT&T proposes the structural separation of network facilities from retail operations. (AT&T at 44-53.) The ICC Staff advocates Section 271 compliance for <u>all</u> the SBC/Ameritech markets. (Staff at 163, AG at 48, Nextlink at 18-21.)

The FCC's Section 271 (and Section 251) requirements are nationally applicable, familiar, and cannot be criticized as micro-managing. If met, local exchange carriers may offer long distance service, competitive telephone companies are better able to compete for local business, and consumers have more options. While it would thus be desirable for SBC to satisfy the competition checklist in all jurisdictions, the ICC should order that they at least be met in Illinois.

SBC does not argue that it cannot comply with Section 271, or that compliance would be contrary to its interests. To the contrary, SBC says that it has satisfied 10 of the 14 conditions in Texas, and that the merger will create additional incentives for compliance, but that a Section 271 order is "unnecessary." (SBC at 69-70.) If that is true, why not accomplish what appears to be a common goal as part of the merger process?

Unfortunately, nearly three years after TA '96, neither SBC nor Ameritech has anywhere passed the Act's Section 271 test. The best time to insist on compliance is before the merger is approved. If regulating Ameritech Illinois has proven challenging in the past, it can only become more difficult when control shifts to another level higher in the corporate structure, and where the decision-makers are outside Illinois and responsible for substantially larger and more far-flung operations. (AG at 26, CUB at 63-6.) With motivation, Ameritech Illinois should be able to comply expeditiously. If more time is needed, the ICC may extend the deadline for its order under Section 7-204(d).

III. THE PROBABLE MERGER SAVINGS ARE LARGE AND HALF THE ILLINOIS PORTION SHOULD BE ALLOCATED TOWARD BRIDGING THE DIGITAL DIVIDE

A. The Probable Merger Savings Are Large And Should Be Allocated Currently Without Subtracting SBC/Ameritech's Transaction Costs

This application should be rejected unless SBC persuades the Commission that the merger will support local competition and market entry, impelling lower rates and improved service. Even assuming, though, that SBC's predictions of enhanced competition ultimately are correct, the benefits SBC promises will lag behind the savings it enjoys. These savings should be allocated to ratepayers and consumers, as contemplated in Section 7-204(c), 220 ILCS 5/7-204(c).

The parties differ widely on how savings are to be defined and determined. SBC states "that savings allocable to Ameritech Illinois' regulated intrastate operations during the first three years of the plan--an appropriate time horizon, given the increasingly competitive marketplace in which Ameritech Illinois operates--would be $31 million." (SBC at 97.) This number was derived by subtracting $67 million in merger costs from gross merger savings over three years of $98 million.

The Government and Consumers Intervenor (GCI) expert, Dr. Lee Selwyn, calculates the total benefits from the merger to be $15.4 billion and multiplies that figure by the 8.77% allocable to Illinois Bell noncompetitive services, resulting in an Illinois share of $1.4 billion. He then computes the flow of benefits over a 10 year period, discounts by a 9.5% interest rate and adjusts for taxes. The total is $216 million after taxes. Adjusted to a pre-tax basis, Dr. Selwyn forecasts $343 million in annual merger benefits.

The California Public Utility Commission (PUC) faced a similar split of opinion in 1997 when SBC sought its approval for the take over of Pacific Telesis. The state's public utility statute provides that merger benefits are to be allocated between ratepayers and shareholders, with ratepayers to receive "not less than 50% of those benefits." Pacific estimated $366 million in cost savings over a five year period. Other participants estimated savings over a longer time period and in sums well into the billions. The PUC narrowly defined its ratepayer jurisdiction, found a compromise applicable time frame, and concluded that the net present value of the cumulative cost savings were $495 million. See Re Pacific Telesis Group, 1997 Cal. PUC LEXIS 629 *1, 177 P.U.R.4th 462.

Significantly, the California PUC determined "savings" as a part of the merger proceeding based on the same sort of projected numbers that were used by the parties in determining the value of the merger. It did not wait until year end audited statements could be reviewed, nor did it hold off until there was an agreement on the financial issues. The PUC instead fixed an amount based on the evidence and arguments presented.

That is what the ICC should do here. And whatever the exact number may be, and even if the GCI analysis were accepted only in part, the merger savings are plainly very large--probably on the scale of $200 million annually from 1999 to 2004.

The savings to be allocated to ratepayers should not be reduced by SBC's merger costs. For more than 75 years Ameritech Illinois has been a regulated utility enjoying monopoly status. It has acquired its assets in a protected, rather than competitive, environment. Now SBC is paying Ameritech shareholders a $13.2 billion premium for these assets. It would be unfair to make the public bear their asserted $67 million in transaction costs that are one time expenses and include generous severance packages to top Ameritech executives.

While the focus of this discussion is on savings in Illinois, the program advocated in Part IV of this reply will also provide spillover benefits throughout the five-state Ameritech region. Those effects further justify viewing the Illinois savings in broad terms.

B. Half Of The Hundreds of Millions In Savings Should Be Allocated To Disadvantaged And Underserved Markets

Given the requirement of Section 271 certification, which should provide competitive benefits to consumers generally, at least half the savings should be invested in building new telecommunications markets by connecting the digitally disadvantaged and in funding other strategies to narrow the technology gap. Some of the savings will no doubt be rebated to Ameritech's present ratepayers. But small credits on monthly telephone bills are inconsequential to individual customers. And they drain funds from the industry that should be used to address the systemic problem of two nations--one electronically linked to the world, the other unconnected and increasingly impacted.

The way to leverage the merger for the good of all Illinoisans is to devote a significant part of its savings to broadening public awareness and access to the telecommunications revolution SBC hails at the outset of its brief. Better service to communities and populations now underserved will reduce government expenditures and spur economic growth. As the California PUC concluded: "We consider the benefits that will accrue as a result of these commitments [SBC's Community Partnership Commitment] important to all ratepayers specifically and California in general since it encourages economic development. The benefits of the CPC will go beyond benefits arising from a simple refund to ratepayers." 1997 Cal. PUC LEXIS 629, *152. The program described in Part IV proposes what can be done in Illinois.

IV. THE ICC SHOULD CONDITION THE MERGER ON AN ILLINOIS COMMUNITY PARTNERSHIP PROGRAM DESIGNED TO BRIDGE THE DIGITAL DIVIDE

A. Disadvantaged Consumer Markets In Illinois, In Addition To The Disabled, Require Special Remediation Efforts

SBC's brief promises that, with the merger, Ameritech Illinois will have access to Technology Resources, Inc. (TRI), the SBC research and development laboratory, and through TRI, "best practices" and new products for residential and business customers. SBC continues (p. 11): "Among many other things, TRI will help Ameritech Illinois improve accessibility for disabled Illinois residents." This is laudable. But the handicapped are only one among many consumer groups that need access and training in the use of advanced telecom services. Rural and inner city residents, the poor, the elderly, the less educated, those without telephones, and many small businesses are cut off from the network economy. The Metropolitan Planning Council, in its recent report on "The Digital Network Infrastructure and Metropolitan Chicago," called for "Aggressive Plans to Mitigate the 'Digital Divide'" (p. 15, emphasis added):

> There is considerable danger that certain segments of metropolitan Chicago's population . . . will be excluded from the advancements afforded by the digital network infrastructure. Much of this is tied to financial resources, as some families, schools, and communities are unable to afford or do not understand the imperative of information technology. **Metropolitan Chicago is economically interdependent and the shared price for leaving some behind is too high.**

SBC itself understands the serious public policy implications of a society of technology "haves" and "have-nots." Its lead witness, James Kahan, testified:

> [T]hat's a public policy issue that the Commission -- the ICC in Illinois should look at. . . . [I]t's a very valid concern. . . . We clearly, if we're not careful, are going to end up with a society of people that have access to the information and those that don't. And that has very serious implications not just to the telecom industry. The implications to the telecom industry

are very small compared to the implications overall. But those are for policymakers to decide and evaluate, not for companies.

Testimony of James Kahan, January 25, 1999, at 447.

B. Other States Served By SBC And Ameritech--California, Ohio, and Wisconsin--Have Required Development Of Significant Programs To Mitigate The Digital Divide

In California, with SBC's agreement as part of its acquisition of Pacific Telesis, a "California Partnership Commitment" was established in 1997 to support customer service, underserved markets, and local communities. As described by the California PUC they included:

- an increase in corporate giving of $1 million over 1996 for three years;
- continuation of multilingual customer service programs;
- contribution of $100,000 per year for seven years toward formation of a Universal Service task force to develop methods to promote universal service by working with community groups;
- formation of the Community Technology Fund to promote access to advanced telecommunications services in underserved communities and funding over 10 years up to $50 million;
- formation of a "Think Tank" to research interests of underserved communities and the general public to create a competitive environment, to be funded by Pacific for $200,000 a year for five years;
- a challenge grant under which Pacific will contribute up to an additional $3 million annually for nine years after the merger in amounts equal to those offered by other telecom providers;
- a commitment to continue to employ, promote and contract with minorities, women and people with disabilities; and
- a commitment to maintain the headquarters for Pacific in California and to expand its employment base by at least 1,000 jobs.

(1977 Cal. PUC LEXIS 629, *150-1.)

The California Partnership Commitment is an $82 million program, with the potential of an additional $27 million from other telecom providers. SBC also agreed to open headquarters in California for four subsidiaries serving the needs of high technology, international, and emerging industries.

In Ohio, the recent settlement entered into between SBC, the staff of the Ohio Public Utility Commission, and various consumer groups, provides for a somewhat similar set of remedies for disadvantaged markets. These include anti-redlining and universal service support provisions, and incentives to insure increased competition in access to unbundled loops and other services. They also entail additional funding for the Ohio Community Computer Center Network that was first established out of a rate case settlement in 1994. A new Community Technology Fund, like the one in California, is to be paid for by Ameritech but controlled by representatives of low-income and disadvantaged markets. Finally, a consumer education fund will be set up to aid economically disadvantaged customers who have the ability to pay, and want telephone services, but do not know about them and their alternatives, and need help in making purchasing decisions.

With Ameritech's agreement, Wisconsin's 1994 "Information Superhighway" Act created a new Wisconsin Advanced Telecommunications Foundation. The Foundation's purpose is "to fund advanced telecommunications technology application projects and efforts to educate telecommunications users about advanced telecommunications projects." It is funded principally by Ameritech, including a "Fast Start Fund" to be available for programs within 18 months of the legislation's enactment. <u>Ameritech's Wisconsin Infrastructure Plan</u> (October 31, 1994), p. 30.

C. The ICC Should Order Six Complementary Programs To Close The Technology Gap And Encourage Economic Development

1. Promote Public Awareness of Telecommunications Options

A first priority is to raise awareness of telecommunications options within disadvantaged markets. Too few residents in certain communities appreciate the benefits they can achieve if they invest time and money in acquiring technology skills and capacities. Too many people in disadvantaged markets think of computers and technology skills as being only for educated and wealthy people, irrelevant to average workers like themselves. Illinois needs a program to "get out the word," so that average consumers learn from the experiences of others, like themselves, who have used advanced telecom services to make real differences in their lives.

Illinois should study awareness raising programs in use elsewhere, such as those publicizing the work of the California Partnership Commitment, those being developed for awareness raising in Ohio, those promoting Lifeline and Linkup programs for Universal Service, and those other telecom providers are employing to communicate the benefits of telecom services in the disadvantaged markets they serve.

2. Build Skills at Community-Based Computer Learning Centers

Illinois should also undertake a program to build community computer centers, like those developed by SBC in Missouri and planned by Ameritech in Ohio. This program would offer stable places for people to learn and practice information and telecommunications skills, with access to integrated telecommunications-related services ("telecommunications showcases"). A central "hub" would be a form of multi-use local area network, supporting satellite computer centers throughout the neighborhood.

Community computer “hubs” become neighborhood learning, life transition, and employment networks, connected to housing developments, churches, settlement houses, and other neighborhood institutions. Each of these centers would need help in working with its constituency, deciding on the most helpful curriculum, choosing the software and hardware to operate instructional programs, recruiting, training and supporting on-site management, and identifying opportunities for user fees and public support and partnership with telecommunications companies that will make the programs self-sustaining.

There are models of excellent community technology centers and computer learning centers around the country. Examples include: the Charles Hayes Family Investment Center, and Erie House in Chicago; Breakaway Technologies and Puente in Los Angeles; Plugged In, the Eastmont Computing Center and the ACORN/IBM Center in the San Francisco Bay area. There are even models of the types of consulting and support systems that are needed to support these centers--CTCNet in Boston, and the Ohio Community Computing Center Network, for example. Illinois should gather and learn from these experiences.

3. Match the Department of Education Technology Challenge Grant

In 1997, the Department of Education awarded a Challenge Grant to the Chicago Public Schools in partnership with the Chicago Housing Authority, the Department of Catholic Education, and the Urban League. It was one of 16 winners out of 800 applications. Two Chicago high schools and neighborhoods (Wells High School and West Town, King High School and Grand Boulevard) are to be used as beta sites to demonstrate how inner city neighborhoods can create skilled residents in “smart neighborhoods." This is to be achieved through an advanced technology "hub" at the high school, programs to teach teachers to use and teach technology, and a "satellite system" of computer learning centers in HUD and public housing, churches, settlement houses, boys and girls clubs, senior centers, parks, libraries, and other community resource centers. The objective is to create neighborhood learning and employment networks as models that can then be rolled out throughout Chicago during the last three years of the grant.

The private sector is to invest $10 million to match $6 million in DOE funds, and the program is ready for launch. SBC should be asked to provide this match on a fast track basis.

4. Create A Community Technology Fund

A Community Technology Fund should be established to sponsor programs, similar again to those developed in California and Ohio, linking households, small businesses with telecommunications resources based in schools, libraries, and other community locations. Modeled after the Department of Commerce's highly successful TIIAP (Technical Information Infrastructure Assistance Program), the Fund would support innovative and replicable projects such as community networking, safety, and telemedicine, to spread the use of technology and telecom services in disadvantaged communities.

5. Collect, Analyze, And Disseminate Public Technology Information

A fifth initiative, to be developed in conjunction with one or more area educational institutions, would be responsible for collecting, analyzing, and disseminating innovative public technology programs from around the country and world that would produce products, services and strategies of importance to members of disadvantaged and underserved markets in Illinois.

6. Locate An SBC Applications Subsidiary in Illinois

One condition of the SBC/PacTel order was that SBC would locate the headquarters of four subsidiaries in California. The ICC should impose a similar requirement in Illinois. It would be particularly appropriate if SBC created an applications-oriented subsidiary to develop products and services for residents of disadvantaged communities. One of the remedies proposed above is that a research initiative be undertaken to gather, analyze, and disseminate information on public technology "best practices" from around the country. SBC should form a subsidiary in Illinois whose mission would be to commercialize the results of this experience.

Groups that are currently "disadvantaged" or "underserved" may be excellent customer markets in the future. They would be especially interested in those "applications" that tailored telecom and advanced telecom services to their needs. In some instances, government support programs subsidize the purchasing power of these markets, so that there should be a business opportunity in developing products and services appropriate for them. Chicago has 23 Sister Cities, and large ethnic populations that touch virtually all international markets. Developing products and marketing them in Illinois could be a cost effective way of testing products and services for sale around the world. An SBC company focusing on these opportunities should be formed in conjunction with Illinois partners and located in this state.

D. The ICC Should Form A Foundation To Develop Business Plans For Programs Designed To Mitigate The Digital Divide

An independent foundation should be created as a condition of this merger. Its mission would be to design and implement programs to assist technology "have-nots," "know-nots," and "access-nots" on the wrong side of the digital divide in Illinois. The foundation would also communicate the possibilities of telecom services and skills to people throughout the state. While telecommunications industry representatives should be included on the foundation's board, a majority of its members should represent public perspectives.

The executive staff should be selected by and report to the board. An appropriate level of technical and clerical staff necessary to conduct the work of the foundation should be supplied by Ameritech and other telecom service providers, perhaps drawing on key Ameritech executives who are now planning to leave the company.

The ICC should define the purpose of the foundation as part of its review of this merger. It should also oversee the foundation's functioning, with meaningful controls, to assure that the work of mitigating the digital divide is accomplished in an appropriate and timely manner.

The entity should have a limited life, perhaps five or six years, to provide transitional assistance to historically underserved telecom markets until such time as competition and traditional public institutions provide longer term solutions to the needs of these markets. The foundation would report periodically on the accomplishment of its goals and would make recommendations on the continuation of its activities through other entities after completion of the merger transition period.

CONCLUSION

SBC/Ameritech has not met its burden of proof. In particular, it has not shown how the merger safeguards the public interest and convenience and has not even discussed how it will protect those already lagging in telecommunications services. This poses concerns not only for those in disadvantaged and underserved markets. It presents a serious problem for Illinois and the state's economy generally. The ICC should therefore condition the proposed merger, if approved, on a system-wide effort to bridge the digital divide, allocating half the merger's very considerable savings to a range of programs designed to bring the social and economic advantages of contemporary telecommunications to everyone in Illinois. This would benefit us all.

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Respectfully submitted,

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