

1 savings and credits. And I have adjusted for any differences in timing by calculating an
2 annual amortization using the same 9.5% discount rate that had been used by Mr.
3 Gebhardt.

4
5 If, on the other hand, the post-merger SBC assigns to Illinois Bell *less than its*
6 *proportionate share of the merger savings*, then Mr. Gebhardt's concern may be well-
7 taken. However, in that event, his argument will be with the manner in which
8 intracompany transfers are made within SBC, and not with the manner in which the
9 Section 7-204(c) allocation to Illinois ratepayers is accomplished. If SBC fails to
10 adequately compensate Illinois Bell for its use of, for example, Ameritech "best practices"
11 elsewhere in its region, or for SBC's ability to exploit monopoly relationships that Illinois
12 Bell has with major corporate accounts headquartered within Illinois to promote SBC's
13 out-of-region CLEC businesses, or for the transfer of Illinois Bell personnel and other
14 resources to nonregulated components within SBC, then it is entirely possible that, after
15 making the required allocation of merger savings to ratepayers, Illinois Bell will
16 experience a decrease in earnings. The Commission should address Mr. Gebhardt's
17 concerns by directing that Illinois Bell be fully and adequately compensated for any value
18 that it contributes to the post-merger SBC and that SBC, as a condition for approval of
19 the merger, assure the Commission that Illinois Bell will in fact receive its proportionate
20 share of merger benefits. The Commission should certainly not permit any diversion of
21 merger benefits away from Illinois Bell that SBC might choose to implement, to serve as
22 a basis for limiting the Section 7-204(c) allocation.

23

1 Q Dr. Selwyn, Mr. Gebhardt does not seem to understand your flow-through calculation and
2 allocation method. Can you please explain your calculation of the synergies attributable
3 to Illinois and your proposal to flow-through those synergies to ratepayers?
4

5 A Yes. As I explained in detail in my direct testimony (pages 83-92), I developed a
6 "composite" allocation factor of 8.77% to be applied to the total estimated Ameritech
7 synergy benefits of \$15.4-billion (using the "present value basis"). The composite
8 allocation factor reflects the percentage of Ameritech represented by telco operations, the
9 percentage of Ameritech telco operations represented by Illinois Bell, the percentage of
10 Illinois Bell telco operations that is jurisdictionally intrastate, the percentage of Illinois
11 Bell intrastate telco operations that is associated with regulated services, and the
12 percentage of Illinois Bell intrastate regulated telco operations that is associated with
13 noncompetitive services. This calculation results in a total allocation to Illinois Bell
14 intrastate noncompetitive services of \$1.4-billion, to be flowed through to Illinois Bell
15 ratepayers. This \$1.4-billion allocation should to be flowed through ratably over a ten-
16 year period, amortized at a 9.5% discount rate and adjusted from an after-tax to a pre-tax
17 basis. Specifically, application of the 9.5% discount rate to the \$1.4-billion results in an
18 annual after-tax figure of \$216-million. When adjusted to a pre-tax basis, this results in a
19 \$343-million annual rate reduction.
20

21 As I explained on page 91 of my direct testimony, and as Mr. Gebhardt apparently fails
22 to understand, there are certain accounting adjustments that need to take place "... in
23 order to recognize the reduction in plant acquisition and operating costs, and the
24 allocation of certain costs to other components of the merged entity that result from the

1 merger." When all adjustments together with the rate reduction are considered, there
2 should be no net change in Illinois Bell's intrastate return on investment associated with
3 noncompetitive services.

4

5 **Conclusion**

6

7 Q. Dr. Selwyn, is there anything in the Applicants' rebuttal testimony that would cause you
8 to modify any of the specific analyses and recommendations that you have made to this
9 Commission regarding the proposed SBC takeover of Ameritech?

10

11 A. No, the Applicants' rebuttal testimony contains no new facts or arguments that were not
12 addressed fully in my direct testimony.

13

14 Q. Does this conclude your rebuttal testimony at this time?

15

16 A. Yes, it does.

Appendix 1

Illinois Commerce Commission Telecommunications Division Staff Report on
Service Reclassification

Ameritech Competition Claims: Investigation

Download Related Document(s)

12/01 - Final Staff Report on Competitive Reclassification
- Attachment: Price Changes



[view](#)
[view](#)



[view](#)

12/01 - Competitive Reclassification Order, Docket 98-0860

[view](#)

[view](#)

12/01 - Competitive Reclassification Order, Docket 98-0861

[view](#)

[view](#)

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Meeting date: November 30, 1998

TELECOMMUNICATIONS DIVISION STAFF REPORT

November 25, 1998

SUBJECT: Staff recommends that the Commission initiate a proceeding to:

- (1) Investigate Ameritech Illinois' competitive reclassification of its business and residential telecommunications services listed in TRM #s 120 and 309;
- (2) Determine whether or not the retail rate increases that occurred following the competitive reclassification of the services listed in TRM #s 120 and 309 are appropriate, and if not, what, if any, refunds should be made to end users;
- (3) Determine whether or not the wholesale rate increases that occurred following the competitive reclassification of the services listed in TRM #s 120 and 309 are appropriate, and if not, what, if any, refunds should be made to wholesale carriers;
- (4) Establish filing requirements that Ameritech Illinois must satisfy when reclassifying its services as competitive.

Capsule Summary

In its Order in Dockets 95-0135 and 95-0179, the Commission specified the evidence required of Ameritech Illinois to support the competitive reclassification of a telecommunications service. Based on its review of the documentation filed by Ameritech Illinois to support the competitive reclassification of the services listed in the "Details of Filing" portion of this report, Staff cannot conclude that Ameritech Illinois has satisfied the standards set forth in the Commission's Order in Dockets 95-0135/95-0179, Consolidated. Further, Staff cannot conclude that those services are appropriately reclassified as competitive. A detailed discussion of the requirements set forth in the Commission's Order as well as the content of Ameritech Illinois' filings is presented below.

For the reasons discussed below, it is the recommendation of the Staff of the Telecommunications Division that the Commission initiate a proceeding to:

- (1) Investigate Ameritech Illinois' competitive reclassification of its business and residential telecommunications services. However,

because of the large number of services reclassified as competitive, and the Commission's limited resources, Staff recommends that a proceeding be initiated to investigate only two of the eleven competitive reclassification filings at this time. Specifically, the Commission should investigate the competitive reclassification filings set forth in TRM #s 120 and 309.

(2) Determine whether or not the retail rate increases that occurred following the competitive reclassification of the services listed in TRM #s 120 and 309 are appropriate, and if not, what, if any, refunds should be made to end users; and

(3) Determine whether or not the wholesale rate increases that occurred following the competitive reclassification of the services listed in TRM #s 120 and 309 are appropriate, and if not, what, if any, refunds should be made to wholesale carriers;

(4) Establish filing requirements that Ameritech Illinois must satisfy when reclassifying its services as competitive. These filing requirements should be consistent with the evidence requirements set forth in the Commission's Order in Dockets 95-0135/0179, Consolidated.

Background

In January of 1995, Ameritech reclassified certain services it provided to business customers from noncompetitive to competitive pursuant to Section 13-502(b) of the Illinois Public Utilities Act ("PUA"). These services included band B calls, band C calls, credit card calls, and operator assistance services. In April of 1995, Ameritech filed to raise those rates for band C usage and calling card calls. Staff prepared a report expressing concern regarding Ameritech Illinois' actions and recommended that these filings be investigated. Also in April of 1995, the Commission entered Orders initiating Dockets 95-0135 and 95-0179 to investigate Ameritech Illinois' competitive reclassification of business bands B and C calls, credit card calls and operator assistance services and the subsequent rate increases. Dockets 95-0135 and 95-0179 were then consolidated.

In its Order in Dockets 95-0135/95-0197, Consolidated, the Commission relied on the standards set forth in Section 13-502(b) of the PUA, as well as the intent of the General Assembly in enacting the Universal Telephone Service Protection Law of 1985 that brought about Section 13-502(b), to reach a determination as to whether or not Ameritech Illinois' competitive reclassification of the services listed above was appropriate. Section 13-502(b) of the PUA states that:

A service shall be classified as competitive only if, and only to the extent that, for some identifiable class or group of customers in an exchange, group of exchanges, or some other clearly defined geographical area, such service, or its functional equivalent, or a substitute service, is reasonably available from more than one provider, whether or not any such provider is a telecommunications carrier subject to regulation under this Act. (220 ILCS 5/13-502(b)).

Further, in its Order in Dockets 95-0135/95-0197, Consolidated, the Commission stated that in making a decision in a reclassification proceeding under Section 13-502(b), the Commission would consider three basic issues:

- (1) The functional equivalence of alternative services; or
- (2) the substitutability of alternative services; and
- (3) the reasonable availability of those functional equivalent or substitute services.

The Commission further stated that the functional equivalence or substitutability of a service is not sufficient to warrant the competitive reclassification of a service if the evidence indicates that the service is not reasonably available to consumers in the actual operation of the marketplace. (Docket 95-0135/0179 Order at 24). The Commission also stated that:

In differentiating between competitive and non-competitive markets, this Commission must make the determination concerning not only the asserted availability of the service, but the ease and economic self-interest which will induce customers to switch between suppliers. It is the capability of customers to exercise economic choices between suppliers that defines in significant part a genuinely competitive market and the reasonable availability of alternative services. (Docket 95-0135/0179 Order at 29).

Finally, the Commission stated that:

Competitive classification under Section 13-502 requires a convincing demonstration that competition will in fact serve effectively as a market-regulator of the quality, variety and price of telecommunications services. Ameritech Illinois' ability to increase its prices notwithstanding the presence of other providers is a strong indication that those rates are not just and reasonable, and that the competitive classification here fails to satisfy this statutory policy. The evidence indicates rather that the declaration of competition in this case is being used as a device to raise rates to customers which demonstrably have not found the alternative offerings by other carriers to be the functional equivalents or reasonably available substitutes for Ameritech Illinois' service.

Based on this analytical framework, the Commission concluded that Ameritech Illinois' business bands B and C calls were not appropriately reclassified as competitive. The Commission concluded that the differences in the methods of accessing the competing bands B and C services which necessitated dialing around Ameritech Illinois by the use of 800 or 10XXX dialing arrangements to reach an alternative provider did not allow the IXCs' services to be functionally equivalent to or a substitute for Ameritech Illinois' reclassified services. Further, because Ameritech held 86.6% of the market share, the Commission found that the IXCs' services were not reasonably available to Ameritech's customers.

With regard to the operator assistance and calling card services, the Commission found that IXCs had a greater market share than they did in the market for bands B and C services. However, the Commission noted that the data regarding the competitive nature of this service were of recent origin and did not conclusively show an assured and effective competitive structure. The Commission also noted that the dial around arrangements required to reach an alternative provider of operator assistance and calling card services prevented the Commission from concluding that services offered by alternative providers were functionally equivalent to or a substitute for those services offered by Ameritech Illinois. The Commission thus concluded that all of the services at issue in this proceeding should be classified as noncompetitive. The Commission further ordered Ameritech to roll back its price increases and refund amounts charged in excess of the previous rates.

Following the issuance of its Order on October 16, 1995, Ameritech Illinois filed a petition with the Commission seeking rehearing. The Commission denied Ameritech Illinois' petition for rehearing. Ameritech filed for a stay of the order on October 24, 1995, and the Commission denied Ameritech's request on October 30. On November 2, 1995, Ameritech requested a limited stay of the Commission Order. The Commission approved the Company's request for a limited stay on November 8, 1995. On November 9, 1995, the Ameritech filed tariffs, reclassifying the business services listed above as noncompetitive and rolling back prices. Consistent with the grant of the limited stay, business customers utilizing 12 lines or more did not receive refunds. The Docket was reopened in order to review evidence regarding business customers utilizing 12 lines or more. The record in the follow-on case was marked Heard and Taken on March 7, 1996. No proposed Order has been released to date in this follow-on Docket.

Ameritech Illinois appealed the Commission's first Order in Docket 95-0135/95-0179 to the Illinois Appellate Court. The Illinois Appellate Court filed an Opinion affirming the Commission's Order on July 22, 1996. On August 27, 1996 the Court denied rehearing of its decision. The Illinois Appellate Court found that:

Allowing a provider to classify a service as competitive prior to the development of a competitive market for the service would enable the provider to enjoy the benefits of a monopoly without the concomitant regulation which the legislature has declared is necessary to protect the interests of consumers. Accordingly, the Commission's conclusion that it must examine actual market behavior in order to determine whether a competing services is reasonably available was not clearly erroneous, and we defer to this interpretation.

Details of Filings

Between March of 1997 and NovemberJune of 1998, Ameritech Illinois filed twelveeleven tariff filings in which it reclassified several of its business and residential services as competitive. The tariff number and filing information is listed below.

TRM # 303

Filed: March 27, 1997

Effective: March 28, 1997

Declaring the following services as competitive for business customers with 12+ lines in Access Area A:

Service Transport Facilities

Flexline Service

DID Service

Digital Trunking Service

Custom Calling Services (Call Waiting, Call Forwarding, 3Way

Calling for business customers with 12+ lines; Speed Calling for all customers)

Number Retention Service

Private Directory Service

Semi-Private Directory Service

Custom Number Service

Additional Listings

PBX trunks

Business Direct Lines

Business Band A Usage

Competitors: MFS and Teleport

TRM # 991

Filed: October 14, 1997

Effective: October 15, 1997

Declaring local exchange services as competitive for business customers with 12+ lines in Access Area B and the following districts: Arlington Heights, Bensenville, Champaign Main, Champaign University, Decatur

Main, Decatur North, Deerfield, Downers Grove, Elk Grove, Elmhurst, Geneva, Glenview, Hinsdale, Lombard, Naperville, Northbrook, Springfield Lake, Springfield Main, Springfield West, Wheaton, and Wheeling. The services included in this competitive declaration include:

- Business Direct Lines
- Business Band A Usage
- PBX Trunks
- FlexLine
- DID Service
- Service Transport Facilities
- Digital Trunking
- Basic Custom Calling Features
- Number Retention Service
- Custom Number Service
- Additional Listings
- Private Directory Service
- Semi-Public Directory Service

Competitors: MFS, Teleport, MCIMetro, and Consolidated Communications Telecom Services, Inc.

TRM #120

Filed: February 6, 1998

Effective: February 7, 1998

Competitive declaration of the following local exchange services for business customers in Access Area C with 12+ lines and business customers in Access Areas A, B, and C with 11 or less lines:

- Business Direct Network Access Lines
- Business Band A and B Usage (11 or less lines)
- Business Band C Usage (12+ lines)
- Ameritech StraightRate
- Business Local CallPaks
- PBX Trunks
- FlexLine
- DID Service
- Service Transport Facilities
- Digital Trunking
- Basic Custom Calling Features (3Way Calling, Call Waiting, Call Forwarding)
- Advanced Custom Calling Features (Automatic Callback, Repeat Dialing, Distinctive Ringing, Call Screening, Caller ID, Caller ID with Name)
- Multi Ring Service
- Number Retention Service
- Custom Number Service
- Extra Listings

Private Directory Service (non-pub)
Semi-Private Directory Service (non-list)
Competitors: MFS, Teleport, McLeodUSA, MCIMetro, etc.

TRM #284

Filed: March 20, 1998

Effective: March 21, 1998

Competitive declaration of the following private line services in all access areas:

Telecommunications Channel Services (1001A, 1006, 2001, 2001A-E, 2002, 2301, 3002, 3010, 6000)

BTAS

DDS

Foreign District Service

Ameritech Base Rate Service

Ameritech 128, 256, and 384 Services

Ameritech DS1 Service

Ameritech DS3 Service

Ameritech OC-3, OC-12, OC-48, and OC-n Services

Ameritech ISDN PRI Service

Competitors: MFS, MCI Worldcom, Teleport, AT&T, etc.

TRM #308

Filed: March 30, 1998

Effective: March 31, 1998

Competitive declaration of the following Complementary Network Services and Central Office Features for business customers:

Busy Line Transfer

Alternate Answering

Customer Control Option

Message Waiting Tone

Easy Call

Special Delivery Feature

Automatic Delivery Feature

Ameritech FeatureLink Service

Remote Call Forwarding

Competitors: MFS, Teleport, MCIMetro, Winstar, etc.

TRM# 309

Filed: March 30, 1998

Effective: March 31, 1998

Competitive declaration of the following services for the exchanges of Alton, Belleville, Champaign Urbana, Collinsville, Danville, Decatur, East Moline, East St. Louis, Edgemont, Edwardsville,

Granite City, Moline, O'Fallon, Peoria, Qunicy, Rock Island, Rockford, Springfield, and Wood River:

Residence Network Access Lines

Residence Usage Services, Bands A and B

Custom Calling Services (3Way Calling, Call Waiting, Call Forwarding)

Advanced Custom Calling Services (Automatic Callback, Repeat Dialing, Distinctive Ringing, Call Screening, Caller ID, Caller ID with name, Automatic Callback, and Repeat Dialing)

Multi Ring Service

Competitors: Teleport, McLeodUSA, AT&T, etc.

TRM #496

Filed: May 14, 1998

Effective: May 15, 1998

Competitive declaration of Ameritech Integrated Services Digital Network (ISDN) Direct Service for all business customers in MSA 1.

Competitors: MFS, Teleport, Focal, Winstar, AT&T, etc.

TRM# 598

Filed: June 16, 1998

Effective: June 17, 1998

Competitive declaration of the following local exchange services for business customers:

Business Direct Network Access Lines

Business Usage Services

Ameritech StraightRate Service

Business Local CallPaks

PBX Trunks

FlexLine

DID Service

Service Transport Facilities

Basic Custom Calling Features (3Way Calling, Call Waiting, Call Forwarding)

Advanced Custom Calling Features (Automatic Callback, Repeat Dialing, Distinctive Ringing, Call Screening, Caller ID, Caller ID with Name)

Complementary Network Services (Busy Line Transfer, Alternate Answer, Customer Control Option, Message Waiting Tone, Easy Call, Special Delivery Feature, Automatic Delivery Feature)

Ameritech Feature Link Service
Ameritech ValueLink Extra-Select
Multi- Ring Service
Remote Call Forwarding
Number Retention Service
Custom Number Service
Alphabetical Directory Service
Extra Listings
Private Directory Service (non-pub)
Semi-Private Directory Service (non-list)

Competitors: AT&T, MFS, and Teleport

TRM #639

Filed: June 26, 1998

Effective: June 27, 1998

Competitive declaration of business Operator Assisted Bands A & B usage and associated Operator Assisted and Calling Card Surcharges (inadvertently omitted from Advice No. 5790).

Competitors: McLeodUSA, TCG, MFS, AT&T, MCI, LCI Frontier, etc.

TRM #654

Filed: June 29, 1998

Effective: June 30, 1998

Competitive declaration (and introduction) of Ameritech Frame Relay Service in Ameritech's service area.

Competitors: AT&T, MCIMetro, Sprint, Worldcom, MFS, etc.

TRM #962

Filed: September 21, 1998

Effective: September 22, 1998

Competitive declaration of Directory Assistance Call Service and Information Call Completion Service for Type I cellular customers.

Competitors: Metro One, InfoNXX, Excel, and Hebcom

TRM #1220

Filed: November 9, 1998

Effective: November 10, 1998

Competitive declaration of the following Special Access services to all customers in Access Areas A, B, and C:

1. Metallic Service,
2. Telegraph Grade Service,
3. Direct Analog Service,
4. Program Audio Service,
5. Video Service,
6. Direct Digital Service,

7. Ameritech Base Rate,
8. Ameritech 128, 256, and 384 Service,
9. Ameritech DS1 Service
10. Ameritech DS3 Service,
11. Ameritech OC-3, OC-12, and OC-48 Service, and
12. SONET Xpress Service.

Competitors: MFS, MCI WorldCom, Teleport Communications, AT&T, WinStar Communications, and Consolidated Communications.

After declaring some of the services listed above as competitive, Ameritech increased the retail and wholesale rates for those services. A partial list of retail and wholesale rate increases, to date, can be found in appendix 2 of this report.

Based on its experience with Dockets 95-0135/95-0197, Consolidated, Ameritech Illinois should be well aware of the Commission's requirements for determining whether a particular service satisfies the competitive reclassification standards set forth in Section 13-502(b) of the PUA as interpreted by the Commission. However, in the support material accompanying the reclassification of the services listed above, it is questionable whether Ameritech Illinois provided sufficient evidence to demonstrate that these services are competitive. Specifically, Ameritech provided a one or two page verified statement for each filing, listing possible competitors for the services in its filings. However, Ameritech did not provide any information regarding its market share for each reclassified service; the trend of its market share for the reclassified service; specific examples of services that compete with Ameritech's service; whether there are any functional differences in the Ameritech's service and that of a competitor, an explanation of the functional differences between those services to the extent they exist; or an analysis of the impact on demand of any price increase associated with the reclassification.

Without this information, Staff has no basis upon which to conclude that Ameritech Illinois' competitive reclassification of those services is consistent with Section 13-502(b) and the Commission's Order in Dockets 95-0135/95-0197, Consolidated. Further, Staff has no basis to conclude that Ameritech Illinois' wholesale and retail rate increases for those services are just and reasonable.

As stated above, Staff is recommending that the Commission begin its investigation of these competitive reclassifications by examining TRM #s 120 and 309 and their associated wholesale and retail rate increases. This will allow the Commission to examine the competitiveness of some of Ameritech Illinois' most essential and non-discretionary services; namely business and residential network access line and usage services.

Further, Staff is recommending that the Commission establish filing requirements that Ameritech Illinois must satisfy when reclassifying its services as competitive. This will eliminate most questions regarding the amount and substance of evidence needed from Ameritech Illinois to support its competitive reclassification of a non-competitive service.

Policy Implications

In addition to the question regarding whether or not Ameritech Illinois has met the requirements set forth by the Commission's Order in Dockets 95-0135/95-0197, Consolidated, Ameritech Illinois' reclassification of the above mentioned services raises issues of first impression that the Commission should decide. Specifically, Ameritech Illinois bases its competitive reclassification of some services on the presence of potential competition from providers offering service through the use of Ameritech Illinois' wholesale services or unbundled network elements. The Commission must determine to what extent services provided through wholesale or unbundled network elements are functionally equivalent, reasonably substitutable, and reasonably available in comparison to their Ameritech retail counterparts. Further, the Commission must determine whether or not the intervals at which Ameritech Illinois provisions those wholesale services or unbundled network elements to carriers allows those carriers to offer retail service that is functionally equivalent, reasonably substitutable and reasonably available. Finally, the Commission must determine whether or not retail service obtained from a carrier offering service through wholesale or unbundled network elements satisfies Section 13-502(b)'s requirement that the customer receive service from "more than one provider."

Recommendation

For the reasons set forth herein, Staff recommends that the Commission initiate a proceeding to:

- (1) Investigate Ameritech Illinois' competitive reclassification of its business and residential telecommunications services listed in TRM #s 120 and 309;
- (2) Determine whether or not the retail rate increases that occurred following the competitive reclassification of the services listed in TRM #s 120 and 309 are appropriate, and if not, what, if any, refunds should be made to end users;
- (3) Determine whether or not the wholesale rate increases that occurred following the competitive reclassification of the services listed in TRM #s 120 and 309 are appropriate, and if not, what, if any, refunds should be made to wholesale carriers;

(4) Establish filing requirements that Ameritech Illinois must satisfy when reclassifying its services as competitive.

Prepared by:

**Christopher L. Graves
Economic Analyst**

Reviewed by:

**Rasha Toppozada-Yow
Chief Policy Section**

Approved by:

**Patrick McLarney, Manager
Telecommunications Division**

Attachment 2

Tariff Filing	Service	Price when service was Reclassified as Competitive by TRM #120 (2/6/98)	Price after changes proposed in TRM #352 on 4/3/98	Price after changes proposed in TRM #817 on 8/7/98	Percentage change
Business Usage Service Access Area A, B, and C					
	Business Usage Service- Band A (Peak- initial)	\$0.0365	\$0.0365	\$0.0400	9.59%
	Business Usage Service- Band B (Peak- initial)	\$0.0745	\$0.0745	\$0.0800	7.38%
	Business Usage Service- Band C (Peak- initial)	\$0.1200	\$0.1050	\$0.1050	-12.50%
	Business Usage Service- Band A (Peak- addl)	\$0.0094	\$0.0094	\$0.0150	59.57%
	Business Usage Service- Band B (Peak-addl)	\$0.0215	\$0.0215	\$0.0300	39.53%
	Business Usage Service- Band C (Peak- addl)	\$0.0956	\$0.1050	\$0.1050	9.83%
		10% discount off peak rate N/A for Band C	10% discount off peak rate N/A for Band C	N/A	
	Shoulded Peak Charge				-10.00%
		40% discount off peak rate	40% discount off peak rate N/A for Band C	N/A	
	Off Peak Charge				-40.00%
			Price after change proposed in TRM #612 on 6/19/98		
Access Area A, B, and C					
	FeatureLink- 2+ pkg category (monthly)	\$8.00	\$9.00		12.50%
	FeatureLink- 5+ pkg category (monthly)	\$8.00	\$9.00		12.50%
	FeatureLink- 12+ pkg category (monthly)	\$8.00	\$9.00		12.50%
	FeatureLink- 20+ pkg category (monthly)	\$8.00	\$9.00		12.50%

Attachment 2

		Price after change proposed in TRM #352 on 4/3/98	Price after change proposed in TRM #817 on 8/7/98	Price after change proposed in TRM #933 on 9/14/98	Percentage change
Automatic Volume Discounts					
Bands A&B					
	Business Usage Discount Schedule (First \$52.00)	0.00%	0.00%	0.00%	0.00%
	Business Usage Discount Schedule (52.01-104)	11.50%	11.50%	0.00%	0.00%
	Business Usage Discount Schedule (104.01-260)	23.10%	23.10%	20.00%	20.00%
	Business Usage Discount Schedule (260.01-832)	32.70%	32.70%	30.00%	30.00%
	Business Usage Discount Schedule (832+)	50.00%	50.00%	50.00%	50.00%
Band C					
	Business Usage Discount Schedule (First \$52.00)	0.00%	0.00%	0.00%	0.00%
	Business Usage Discount Schedule (52.01-104)	0.00%	0.00%	0.00%	0.00%
	Business Usage Discount Schedule (104.01-260)	30.00%	25.00%	25.00%	0.00%
	Business Usage Discount Schedule (260.01-832)	45.00%	50.00%	50.00%	0.00%
	Business Usage Discount Schedule (832+)	50.00%	50.00%	50.00%	0.00%
		Price after change proposed in TRM #1186 on 10/30/98			
Remote Call Forwarding					
	Monthly Recurring Charge	\$14.50	\$16.50		13.79%

Appendix 2

**SBMS Illinois Services, Inc. Application for a Certificate of Local Exchange Service
Authority and Certificate of Service Authority to Resell Local and IntraMSA
Interexchange Telecommunications Services Within Those Portions of Market Service
Area 1, ICC Docket 95-0347, filed July 21, 1995.**

OFFICIAL FILE
ILLINOIS COMMERCE COMMISSION
STATE OF ILLINOIS

ORIGINAL

ILLINOIS COMMERCE COMMISSION

SEMS ILLINOIS SERVICES, INC.)
)
Application for a Certificate)
of Local Exchange Service)
Authority and Certificate of)
Service Authority to resell)
local and intraMSA interexchange)
telecommunications services)
within those portions of Market)
Service Area 1 served by Illinois)
Bell Telephone Company, d/b/a)
Ameritech-Illinois, and Central)
Telephone Company of Illinois)
and for a Certificate of Inter-)
exchange Service Authority to)
provide facilities-based intraMSA)
interexchange services within)
Market Service Area 1.)

0347
Docket No. 95-0457
ILLINOIS
COMMERCE
COMMISSION
JAN 3 1995
CLIENT'S OFFICE

APPLICATION

NOW COMES, SEMS Illinois Services, Inc. ("SEMS Illinois"), a Delaware corporation, and applies to the Illinois Commerce Commission ("Commission") for a Certificate of Local Exchange Service Authority and Certificate of Service Authority to resell local and intraMSA interexchange telecommunications services within those portions of Market Service Area 1 served by Illinois Bell Telephone Company, d/b/a Ameritech-Illinois ("Ameritech-Illinois"), and Central Telephone Company of Illinois ("Centel") and for a Certificate of Interexchange Service Authority to provide facilities-based intraMSA interexchange services within

Market Service Area 1 and in support of its Application states as follows:

1. SBMS Illinois is a corporation formed under the laws of the state of Delaware and is applying for authorization to transact business in the state of Illinois.

2. SBMS Illinois's address for the service of documents is:

SBMS Illinois Services, Inc.
c/o President
17330 Preston Road, Suite 100-A
Dallas, TX 75252

Copies of notices and other communications relating to this Application should be sent to SBMS Illinois at the above address and to the undersigned counsel.

3. Southwestern Bell Mobile Systems, Inc. ("SBMS") is the non-wireline cellular carrier for the Chicago, Illinois Cellular Geographic Service Area pursuant to a Certificate of Service Authority previously granted by this Commission. In the Chicago metropolitan area, SBMS does business as Cellular One--Chicago. (SBMS and other entities controlled by SBMS provide cellular services in other areas of the state of Illinois pursuant to Certificates of Service Authority granted by this Commission.) SBMS's immediate parent company is Southwestern Bell Wireless Holdings, Inc. ("SBWH"). SBWH is the sole shareholder of SBMS Illinois which has been created to provide local exchange telecommunications services and other telecommunications services for which Certificates of Service Authority are sought in the

portions of the Chicago metropolitan area identified in this Application.

4. SEMS Illinois and SEMS are both indirect wholly-owned subsidiaries of SBC Communications, Inc. ("SBC"), one of the so-called "Regional Bell Holding Companies" created in connection with the "AT&T divestiture" in 1984.¹

5. SEMS Illinois intends to provide high quality and all forms of local exchange and interexchange telecommunications services on both a facilities and resale basis within the specified geographic area. SEMS Illinois proposes to resell various voice and data communications services offered by Ameritech-Illinois, Centel and new local exchange carriers, such as MFS Intelenet of Illinois, Inc. SEMS Illinois will construct its own transmission and switching facilities to augment existing infrastructure to the greatest extent possible. Facilities-based and resold services will be packaged to suit specialized needs of customers. SEMS Illinois' intent is to introduce state of the art technology as rapidly as possible to obtain competitive advantages in the provision of telecommunications services and to purchase and resell services based on state of the art technology being utilized by other telecommunications carriers to provide telecommunications services.

¹United States v. American Telephone & Telegraph Company, 552 F.Supp. 137 (D.D.C. 1982), *aff'd sub nom.*, Maryland v. United States, 460 U.S. 1001 (1983).

6. SEMS Illinois believes that a significant degree of integration between its operations and the operations of Cellular One--Chicago is required in order to offer consumers the fullest range of services on the most cost effective basis. Unlike many of the new entrants, Cellular One--Chicago has already built and is operating its network and providing ubiquitous geographic coverage throughout the Chicago metropolitan area. Cellular One--Chicago has in excess of 400 cell sites throughout the area with the cell sites being linked by fiber optic or other landline trunks (or microwave facilities) to form a backbone network serving the Chicago metropolitan area. With the integration of the operations of SEMS Illinois and Cellular One--Chicago, prospective landline customers throughout the Chicago metropolitan area would only need to be linked to the closest cell site in order to be linked to the backbone network.

As this Commission is aware, Cellular One--Chicago has hundreds of thousands of customers throughout the Chicago metropolitan area made up of residential and small business customers as well as large businesses. The integration of the operations of SEMS Illinois and Cellular One--Chicago will allow the introduction and provision of new services and economically attractive packages not only to those customers but prospective customers, as well. Cellular One--Chicago has an extensive distribution system throughout the Chicago metropolitan area; and

the proposed integration will allow the early availability of competitive alternatives throughout the area, as well as the benefits of "one stop shopping" for wireline and wireless services or combinations thereof.

7. The scope of such integration, however, may be affected by § 22.903 (47 CFR § 22.903) of the rules of the Federal Communications Commission ("FCC"), which sets forth the separation rules governing the provision of cellular service (and other public mobile services) by the Bell Operating Companies. In order to resolve uncertainty regarding the applicability of § 22.903, SEMS has petitioned the FCC for a declaratory ruling that the § 22.903 rules do not apply outside of the five state region in which Southwestern Bell Telephone Company provides local exchange service; i.e., that the separation rules do not apply "out of region". In the event of favorable disposition of that Petition by the FCC, it would be the intent to integrate to a significant degree the operations of SEMS Illinois and Cellular One--Chicago as discussed above. Until action by the FCC on that Petition, the services for which SEMS Illinois seeks certification hereunder will be provided as if the rules do apply.

8. SEMS Illinois possesses sufficient technical, financial and managerial resources and abilities to provide services it seeks to provide as required by § 13-403, § 13-404 and § 13-405

of The Public Utilities Act ("Act"). As set forth above, SBMS Illinois is an indirect wholly-owned subsidiary of SBC. SBC and its affiliates will provide all funds necessary for SBMS Illinois to provide the proposed local exchange and interexchange services. SBC and its affiliates will fully staff SBMS Illinois with qualified and experienced managerial and technical personnel. SBC had assets in excess of \$26 billion and shareholders equity or net worth in excess of \$8.3 billion as of December 31, 1994.

9. The Commission has already granted § 13-405 local exchange certificates to MFS Intelenet of Illinois, Inc. and TC Systems-Illinois, Inc. covering the identical geographic areas SBMS Illinois seeks to serve. The Commission found that the granting of those local exchange certificates would not adversely impact the prices, financial viability, or network design of Ameritech-Illinois and/or Centel. The effect that granting SBMS Illinois' Application will have on the prices, network design and financial viability of Ameritech-Illinois and/or Centel has already been determined by these prior Commission Orders; i.e., that the granting to SBMS Illinois of a § 13-405 local exchange certificate would not adversely impact the prices, network design or financial viability of Ameritech-Illinois and/or Centel.

10. Pursuant to § 13-402 of the Act, SBMS Illinois requests that the Commission waive or modify the application of its rules,

general orders, procedures and notice requirements as appropriate.² This would relieve SBMS Illinois of certain economic burdens and regulations that are necessary for new competitive entrants. Such a waiver request is consistent with policies of Article XIII of the Act. SBMS Illinois requests that the Commission waive application of 63 Illinois Administrative Code 710 relating to the requirement to maintain records under the Uniform System of Accounts. SBMS Illinois will maintain its books and records in an accounting system that complies with the General Accepted Accounting Principals that accurately reflect SBMS Illinois' operations.

SBMS Illinois also asks that the Commission grant a variance of the requirements of 63 Illinois Administrative Code 735.180-- publication of a directory by a local exchange carrier. The publication of a directory by a local exchange carrier is not statutorily mandated and no party will be injured by the granting of the requested variance. The requirement for SBMS Illinois to publish a directory would be unnecessarily burdensome, since

²SBMS Illinois seeks the same waivers and/or variances which the Commission has previously granted MFS Intelenet of Illinois, Inc. (Docket No. 93-0409) and TC Systems-Illinois, Inc. (Docket No. 94-0162). MCI Metro Access Transmission Services, Inc. (Docket No. 94-0400) and AT&T Communications of Illinois, Inc. (Docket No. 95-0197) seek similar waivers and/or variances in their respective pending certificate Applications. SBMS Illinois would be placed at a competitive disadvantage if it were not to receive the same waivers and/or variances granted to other new entrants.

virtually all of the customers in the geographic area would be customers of Ameritech-Illinois or Centel. It is more efficient for SEMS Illinois to make arrangements with Ameritech-Illinois and Centel to include its limited customer list in the existing directories of those companies.

SEMS Illinois may require additional regulatory waivers in the future once its Application is granted and it begins providing local exchange service. SEMS Illinois reserves the right to seek any regulatory waivers that may be required in the future for SEMS Illinois to compete effectively in the designated Illinois local exchange services market.

11. SEMS Illinois will maintain a portion of its books and records outside of the state of Illinois. It would be an economic burden to require SEMS Illinois to maintain its books and records in Illinois. SEMS Illinois requests that it be granted authority pursuant to 83 Illinois Administrative Code Part 250 to maintain its books and records outside of the state of Illinois.

WHEREFORE, pursuant to § 13-403, § 13-404 and § 13-405 of the Act, SEMS Illinois Services, Inc. respectfully prays that the Commission enter an Order granting it a Certificate of Local Exchange Service Authority and a Certificate of Service Authority to resell local and intraMSA interexchange telecommunications services within those portions of Market Area Service 1 served by

Illinois Bell Telephone Company and Central Telephone Company of Illinois and granting it a Certificate of Interexchange Service Authority to provide facilities-based intramSA interexchange services within Market Service Area 1, and to grant the waivers, variances and other relief described herein.

DATED this 18th day of July, 1995.

Respectfully submitted,

SBMS ILLINOIS SERVICES, INC.

By: Wayne Warts

Wayne Warts
Member, Board of Directors

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STATE OF TEXAS)
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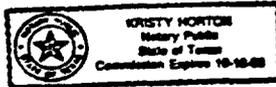
VERIFICATION

Wayne Watts, being first duly sworn, deposes and states that he is a Member of the Board of Directors of SBMS Illinois Services, Inc., that he has read the above and foregoing Application and knows the contents thereof, and that the same are true to the best of his knowledge, information and belief.

Wayne Watts
Wayne Watts

Subscribed and sworn to before
me this 18th day of July, 1995.

Kristy Horton
Notary Public



Appendix 3

Motion of Southwestern Bell Mobile Systems, Inc. for a Declaratory Ruling That Section 22.903 and Other Sections of the Rule of the Commission Permit the Cellular Affiliate of a Bell Operating Company to Provide Competitive Landline Local Exchange Service Outside the Region in Which the Bell Operating Company is the Local Exchange Carrier, Motion for Declaratory Ruling, CWD Docket No. 95-5, dated June 21, 1995.

RECEIVED

JUN 21 '95

FEDERAL COMMUNICATIONS COMMISSION
SECRETARY

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

In the Matter of)
)
)
Motion of Southwestern Bell)
Mobile Systems, Inc. for a)
Declaratory Ruling That)
Section 22.903 and Other Sections)
of the Rules of the Commission)
Permit the Cellular Affiliate)
of a Bell Operating Company to)
Provide Competitive Landline Local)
Exchange Service Outside the)
Region in Which the Bell Operating)
Company is the Local Exchange)
Carrier)

___ Docket No. ___

TO: The Commission

MOTION FOR DECLARATORY RULING

Respectfully submitted,

Wayne Watts
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June 21, 1995

TABLE OF CONTENTS

	<u>Page</u>
I. SUMMARY OF MOTION.....	(i)
II. DISCUSSION	
A. Introduction.....	1
B. Competition in the Provision of Landline Local Exchange Service is in the Public Interest.....	4
C. "Separate Subsidiary" and Other Separation Requirements Serve No Purpose "Out of Region".....	16
D. The Provision of Competitive Landline Local Exchange Service By a Cellular Affiliate of a BOC "Out of Region" Is Consistent with the Commission's Rules.....	36
E. A Declaratory Ruling Is Appropriate in this Case and Should Promptly Be Granted.....	42
III. CONCLUSION.....	46

- Attachments: #1 List of SBMS's Out of Region Cellular
Markets
#2 Local Exchange Competition in
SBMS's Out of Region Cellular Markets
#3 Petition to New York Public
Service Commission
#4 Proposed Declaratory Ruling

SUMMARY OF MOTION

Over the past several decades, the Commission has taken numerous steps to create and promote competition in the provision of telecommunications services. Recently, the Commission, and many States, have extended these efforts to opening competition in the provision of local exchange and exchange access services. This has been done to provide the public with competitive alternatives to the existing local exchange carrier ("LEC") and to offer the benefits of integrated offerings of various types of telecommunications services ("one-stop shopping").

Southwestern Bell Mobile Systems, Inc. ("SBMS") seeks to provide competitive landline local exchange service (hereinafter, "CLLE service"), where authorized by state commissions, and to offer to the public the benefits of one-stop shopping through integrated offerings of CLLE and wireless services, which will foster the Commission's objective of encouraging competition, and will further the public interest. SBMS proposes to provide CLLE service -- in areas outside the 5-state region in which Southwestern Bell Telephone Company ("SWBT"), the Bell Operating Company ("BOC") affiliate of SBMS, is the LEC (hereafter, "out of region") -- on an integrated basis with its out of region cellular facilities, systems and personnel.¹

¹ SBMS currently provides cellular service in several markets throughout the country that are out of SWBT's region. These out of region systems, which cover approximately 2/3rds of
[Footnote continued on next page]

Such integration is essential to provide both one-stop shopping and competitive choices to a wide range of customers, as well as to ensure that SBMS will be an efficient, cost-effective competitor to the existing LEC (and other competitors).

By this Motion, SBMS respectfully requests a declaratory ruling that Section 22.903, and any other applicable sections, of the Commission's Rules permit the cellular affiliate of a BOC, acting on its own behalf or through a closely-integrated corporate affiliate, to provide out of region CLLE service, both indirectly (through resale) and directly through the ownership or lease of CLLE facilities.² SBMS proposes initially to provide integrated cellular and CLLE service in Rochester, New York, and thereafter in other out of region markets where SBMS provides cellular service.³

[Footnote continued from previous page]

SBMS's total cellular POPs, serve several major markets, including Chicago, Boston and Washington/Baltimore, as well as a number of individual markets throughout Upstate New York. A list of SBMS's out of region cellular markets is attached hereto at Exhibit #1. An overview of the status of local exchange service competition in several of the states in which SBMS provides out of region cellular service is attached hereto at Exhibit #2.

² While we are not aware of any other rule which affects the issues addressed in this Motion, we are seeking a declaratory ruling that neither Section 22.903 nor any other section of the Commission's rules or FCC requirements imposes separate subsidiary or other structural separation requirements on the provision of out of region CLLE service by SBMS.

³ As described more fully in this Motion, this is precisely the type of integrated service which other telecommunications companies are now offering in Rochester and are proposing to offer in other markets, and with which SBMS must compete.

[Footnote continued on next page]

The reason for this Motion is that one reading of Section 22.903 -- which we believe would be incorrect and a misapplication of the rule to a situation in which it was never intended to apply -- suggests there may be certain limitations on SBMS's ability to provide out of region CLLE service either directly or on an integrated basis with a corporate affiliate formed to provide CLLE service. In particular, the rule could be interpreted to restrict SBMS's ability to integrate out of region cellular and CLLE facilities, systems and personnel, despite the fact that the concerns which underlie the separation requirements -- i.e., possible cross-subsidies from and potential discrimination by the incumbent LEC -- are not now and never have been applicable out of region. As the Commission has recognized in other contexts (e.g., the out of region construction of cable lines by a LEC), the separation requirements were adopted to foster and to protect in region⁴ competition in the provision of new services. Since what is proposed here is the provision of competitive local exchange service by a carrier out of region where it has no ties to the

[Footnote continued from previous page]

SBMS is not seeking a ruling which would permit SBMS (or a closely-integrated corporate affiliate) to provide CLLE by acquiring the existing LEC in any market. Rather, SBMS's entry will be on a competitive basis, either through direct entry itself or through the acquisition of another competitor, but not as a replacement for the existing LEC.

⁴ As used herein, "in region" refers to all areas within a BOC's multi-state territory where it is the LEC.

incumbent LEC, it is entirely appropriate for the Commission to issue the requested declaratory ruling.

This is not a hypothetical concern. Due to the uncertainty regarding the applicability of Section 22.903 to this service, SBMS's immediate parent company, Southwestern Bell Wireless Holdings, Inc. ("SBWH"), has created a new subsidiary, SBMS New York Services, Inc. ("SBMS-NY Services"), to provide CLLE service in New York. SBMS-NY Services is a sister corporation of SBMS, and both SBMS-NY Services and SBMS are fully separated from SWBT. SBMS-NY Services has filed a petition seeking certification from the New York State Public Service Commission ("NY-PSC") to provide a full range of telecommunications services throughout the State of New York. A copy of that certification petition is attached hereto at Exhibit #3. Upon receipt of that certification, and grant of this Motion, SBMS and SBMS-NY Services intend to integrate their facilities, operations and personnel in the provision of cellular and CLLE service in Rochester, New York; thereafter, upon receipt of appropriate state certifications, SBMS and its affiliates⁵ will proceed with the provision of such service in other out of region cellular markets.

⁵ SBWH anticipates establishing other subsidiaries in addition to SBMS-NY Services to provide CLLE services in its remaining out of region markets.

The public interest will clearly be served by the grant of this Motion. In the absence of the requested declaratory ruling, SBMS (either directly, or in conjunction with SBMS-NY Services) will not be able to provide customers with the services and choices that integration would allow, and will not be able to serve as wide an array of customers. As explained further in this Motion, this is particularly true not only in relation to the existing LEC in these markets, but also because others will be able to enter -- and, in fact, are now entering -- these markets and providing integrated services without any separation requirements. In Rochester, a number of companies -- including AT&T, Time Warner, Frontier, and others -- have already begun offering various combinations of integrated services on a one-stop shopping basis.

For these reasons, SBMS respectfully requests the grant of this Motion and the issuance of the requested declaratory ruling on an expedited basis.

MOTION OF SOUTHWESTERN BELL MOBILE SYSTEMS,
INC. FOR A DECLARATORY RULING THAT
SECTION 22.903 AND OTHER SECTIONS OF THE RULES
OF THE COMMISSION PERMIT THE CELLULAR
AFFILIATE OF A BELL OPERATING COMPANY TO PROVIDE
COMPETITIVE LANDLINE LOCAL EXCHANGE SERVICE
OUTSIDE THE REGION IN WHICH THE BELL OPERATING
COMPANY IS THE LOCAL EXCHANGE CARRIER

DISCUSSION

A. Introduction

Pursuant to Sections 4(i) and 303(r) of the Communications Act of 1934, as amended, 47 U.S.C. §§ 154(i) and 303(r) (1988), and Sections 1.2 and 22.903 of the Commission's Rules, 47 C.F.R. §§ 1.2 and 22.903, Southwestern Bell Mobile Systems, Inc. ("SBMS") respectfully moves the Commission for a declaratory ruling that Section 22.903 and any other applicable sections of the Commission's Rules permit the cellular affiliate of a Bell Operating Company ("BOC"), acting directly or through a closely-integrated corporate affiliate, to provide competitive landline local exchange ("CLLE") service outside of the traditional region in which the BOC is the local exchange carrier ("LEC") (that area is hereafter referred to as "out of region").¹ SBMS seeks to provide such services initially in Rochester, New

¹ This Motion seeks a declaration that neither Section 22.903 nor any other rule or FCC requirement requires a separate subsidiary, or imposes other separation requirements, for the provision of out of region CLLE service by SBMS directly or in conjunction with a closely-integrated affiliate of SBMS.

York, and it intends to provide such services in other out of region areas where it provides cellular service in the near future, as the applicable state commissions permit. SBMS seeks a ruling that the cellular affiliate of a BOC may provide CLLE service both indirectly (through resale) and directly through the lease or ownership of local exchange facilities and the integration of those facilities with its existing cellular infrastructure, to the fullest extent permitted by state certifications.

SBMS seeks this declaratory ruling to remove uncertainty created by Section 22.903 of the Commission's Rules regarding the extent of permissible integration between the cellular affiliate of a BOC and another affiliate formed to provide out of region CLLE service.² Specifically, Section 22.903 provides, in pertinent part, that the cellular affiliate of a BOC:

- ° must not own any facilities for the provision of landline telephone service (22.903(a));
and

² SBMS has separately raised a concern with the Commission regarding the impact of new Section 22.903 on the ability of its BOC affiliate to sell or promote SBMS's cellular services in region, but that issue should be decided separately from the out of region CLLE issue raised in this Motion. See SBMS's Petition For Reconsideration and Clarification, In the Matter of Revision of Part 22 of the Commission's Rules Governing the Public Mobile Services (and related proceedings), CC Dkt. Nos. 92-115, 94-46 (RM 8367) and 93-116 (filed Dec. 19, 1994).

- ° must -- (1) [m]aintain its own books of account; (2) [h]ave separate officers;
- (3) [e]mploy separate operating, marketing, installation and maintenance personnel; and
- (4) [u]tilize separate computer and transmission facilities in the provision of cellular services. (22.903(b)).³

A review of Commission orders relating to these rules plainly reveals that they were intended to apply to the in region provision of cellular service where the BOC, from which the cellular provider is be separated, provides local exchange service. It is only there that the purposes underlying the separation requirements -- i.e., to prevent cross-subsidization and possible inter-connection discrimination -- apply.

The application of the separation requirements to the competitive provision of out of region landline exchange service by a cellular affiliate of a BOC would serve no public policy or other purpose. Rather, it would only impose duplicative costs, eliminate efficiencies, and severely restrict the ability of the cellular affiliate to compete and to provide new services for a broad variety and extended geographic range of customers. Thus, an improper reading of these rules -- which

³ Section 22.903, as amended effective Jan. 1, 1995, appears at 59 FR 59502, 59560-61 (1994) (to be codified at 47 C.F.R. § 22.903).

would preclude SBMS from owning local exchange facilities; which would preclude SBMS from utilizing the existing backbone facilities, switches, systems and personnel from its cellular networks in the provision of CLLE service; which would preclude SBMS from integrating its existing facilities, systems and personnel with those of its CLLE affiliate; and, indeed, which may even preclude SBMS from engaging in the provision of local exchange service -- is both inconsistent with the purpose of the rules and contrary to the public interest if applied out of region.

For these reasons, as more fully discussed below, the grant of this Motion is in the public interest and should be given expedited treatment.⁴

B. Competition in the Provision of Landline Local Exchange Service is in the Public Interest

1. Benefits of Competition Generally

Over the years, the Commission has taken numerous steps to promote competition in the provision of telecommunications services. For example, from the allocation of frequencies for private microwave systems to the authorization of MCI as a competitor to AT&T, and more recently through its efforts in the Competitive Carrier and Price Cap Performance Review proceedings, the

⁴ The specific terms of the declaratory ruling SBMS is seeking are set forth at Exhibit 4 to this Motion.

Commission has encouraged competition in the market for long distance services.⁵ Similarly, the Commission has successfully encouraged competition in the market for customer premises equipment.⁶ The Commission has recently intensified its efforts to foster competition.⁷

2. Competition In the Provision of Local Exchange and Exchange Access Service

Consistent with their actions in other areas, the FCC, as well as a number of States, have moved to facilitate competitive entry into the local exchange business, with expectations of widespread availability of competitive options -- both geographically and in terms

⁵ For an historical review of the Commission's efforts to encourage competition in the long distance market, see Notice of Proposed Rulemaking, In the Matter of Competition in the Interstate Interexchange Marketplace, 5 FCC Rcd. 2627 at ¶ 4-93 (1990).

⁶ See, e.g., Decision, In the Matter of the Use of the Carrierfone Device in Message Toll Telephone Service, 13 FCC 2d 420 (1968) (allowing customers to acquire and use interconnecting devices) aff'd on recon., 14 FCC 2d 571 (1968); Report and Order, In the Matter of Furnishing of Customer Premises Equipment by the Bell Operating Telephone Companies and the Independent Telephone Companies, 2 FCC Rcd. 143 (1987) (removing the structural separation requirements from the BOCs' provision of CPE), recon., 3 FCC Rcd. 22 (1987).

⁷ In the Price Cap Performance Review proceeding, where the Commission utilized price caps as a surrogate for competition, it nevertheless declared that: "This Commission has long sought to encourage full and fair competition in telecommunications markets, and we continue to believe that vigorous competition is generally better able to serve the public interest than a regulated monopoly." Notice of Proposed Rulemaking, In the Matter of Price Cap Performance Review for Local Exchange Carriers, 9 FCC Rcd. 1687 at ¶ 94 (1994).

of target customers. In the recent Rochester Open Market Plan proceeding, the Commission emphasized that:

(We are firmly committed to the rapid introduction of competition in local exchange markets. Competition should produce lower prices, improve services, and yield an innovative and broadly accessible communications network. Order, In the Matter of Rochester Telephone Corporation; Petition for Waivers to Implement Its Open Market Plan, FCC 95-96, 1995 WL 101438 at ¶ 13 (released March 7, 1995).⁸

The marketplace reality has thus far been somewhat limited, however, since competitive access providers ("CAPs") have in most cases built facilities concentrated in the central business sections of major cities and focused on serving the largest customers in those areas, thereby depriving small businesses and residential customers of the benefits of competition.

Unlike CAPs, SBMS's cellular network facilities provide ubiquitous geographic coverage to its customers. SBMS has constructed cell sites throughout all geographic areas of the markets it serves, covering suburban and rural areas as well as the downtown business sectors. Each cell site is linked to a switch by fiber optic or other landline trunks (or microwave facilities)

⁸ As summarized in the attached Exhibit #2, a number of the states in which SBMS provides out of region cellular service have reached the same conclusion.

to form a backbone network with regional coverage. Prospective landline customers throughout the region would only need to be connected to the closest cell site in order to be linked into this backbone network.

Unlike CAPs, SBMS also has hundreds of thousands of residential and small business customers, in addition to its large business customers. SBMS has existing business relationships and goodwill with these customers and already bills them for cellular services. To sell additional services to them and service their accounts would be more economically attractive, more likely to succeed and, therefore, also more likely to reach them with competitive choices sooner than waiting for a CAP to expand.

- To reach and serve an entire market -- large and small businesses, and residential customers -- and to do so economically and quickly -- SBMS needs both to use its existing cellular facilities and to build or otherwise acquire and integrate new leased or constructed facilities, for the provision of CLLE service. These facilities include its backbone network linking existing cell sites. With one (or more) sophisticated switches already in place in each market, SBMS could rapidly provide switching capabilities, so that new services could be offered beyond the services made available for resale by the existing LEC.

Customers could obtain both new services and other services which are integrated with the wireless services they are already buying. This might also obviate the need for customers to purchase duplicate landline and wireless services (e.g., enabling them to purchase only one voice mailbox that has messages from calls made to the customer's office, home and cellular phones).

Integrating wireless and CLLE service in this manner will facilitate one-stop shopping. For example, new generation CPE, such as SBMS's FreedomLink™, which operates as a cordless phone tied to the landline system within a building and as a cellular phone when taken outside, could be made available along with supporting wireless and landline services, all from a single source. Also, if something goes wrong, one repair person could be dispatched regardless of the source of the problem -- the wired network, the wireless network, or the CPE. The customer could also receive only one bill covering all of these services and equipment, which might be for a lower combined amount due to the lower cost of reaching and serving the customer and the avoidance of unnecessary duplication.

As explained in this Motion, SBMS anticipates first providing CLLE service in Rochester, New York. Initially, local exchange services will be purchased from the existing LEC, Rochester Telephone Corporation