

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

ILLINOIS  
COMMERCE COMMISSION

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<b>Illinois Bell Telephone Company</b>	)	
<b>Application for review of alternative regulation plan.</b>	)	98-0252
<b>Illinois Bell Telephone Company</b>	)	98-0335
<b>Petition to rebalance Illinois Bell Telephone Company's Carrier Access and Network Access Line Rates.</b>	)	(cons.)
<b>Citizens Utility Board and The People of the State of Illinois</b>	)	
<b>-vs-</b>	)	
<b>Illinois Bell Telephone Company</b>	)	00-0764
<b>Verified Complaint for a Reduction in Illinois Bell Telephone Company's Rates and Other Relief.</b>	)	

**INITIAL BRIEF OF AT&T COMMUNICATIONS OF ILLINOIS, INC.**

AT&T Communications of Illinois, Inc. ("AT&T") hereby submits its Initial Brief in the above docket. Pursuant to the agreement of the parties and the consent of the Hearing Examiners, the due date for initial briefs by the parties was extended to March 22, 2001 from March 20, 2001. Reply briefs are due on or before April 6, 2001. AT&T offers no opinion or argument as to whether the Commission should permit Ameritech Illinois ("Ameritech") to operate under an alternative form of regulation or whether it should demand that Ameritech return to rate-of-return regulation. Since AT&T's recommendations are premised upon a Commission order permitting Ameritech to continue to operate under an alternative form of regulation, to the extent the Commission

orders that Ameritech Illinois return to rate-of-return regulation, AT&T's recommendations would not apply.

According to the Outline for Briefs and Proposed Orders distributed by the Hearing Examiners, AT&T's arguments will address Section III.A. (Going Forward Proposal – Relative to Existing Components And Relative To New Components), Section IV. (Service Quality – Existing and Proposed Measures and Benchmarks and Existing & Proposed/Penalty Structures) and Section VII. (Rate Design).

### **III. Going Forward Proposal**

**THE COMMISSION SHOULD REQUIRE AMERITECH TO INCLUDE ACCESS SERVICES, UNES, INTERCONNECTION, TRANSPORT AND TERMINATION SERVICES, WHOLESALE SERVICES AND EMERGENCY SERVICES IN ITS ALTERNATIVE REGULATION PLAN.**

Ameritech Illinois proposes that the following noncompetitive services be excluded from its alternative regulation plan: (1) switched and nonswitched access services; (2) unbundled network elements (“UNEs”), interconnection and transport and termination services; (3) wholesale services; and (4) emergency services.<sup>1</sup> As a general matter, Ameritech Illinois supports excluding access services, wholesale services, UNEs, interconnection, and transport and termination services from the price cap mechanism on the basis that rates for these services are set through other means. GCI Ex. 1.0, p. 50. However, just as access charges were subject to both price cap and interstate mirroring constraints when the existing price cap mechanism was adopted in 1994, the fact that certain noncompetitive services may be subject to additional, independent pricing constraints does not -- in any way -- mean that these services cannot also be included in

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<sup>1</sup> Ameritech Illinois Ex. 3.0 at 14-15.

the price cap plan, nor does it mean that subjecting these services to the price cap mechanism would not be beneficial. To the contrary, the price cap provisions could provide a convenient, low cost, and routine approach to updating the rates derived initially through cost studies, thus avoiding or deferring lengthy and contentious proceedings to evaluate cost studies and update rates for these services, and furthering the goal of reducing regulatory resources. GCI Ex. 1.0, pp. 50-52 ; AT&T Ex. 1.0, p. 6.

Contrary to Ameritech's proposal to exclude these services, these services are not properly excluded from the alternative regulation plan. In fact, Section 13-506.1 of the Illinois Public Utilities Act contains no provisions that would authorize the complete exclusion of a subset of noncompetitive services (i.e., carrier to carrier services) from alternative regulation. At the same time, it does not appear necessary to treat all noncompetitive services exactly the same under an alternative regulation mechanism.

In addition to the fact that Section 13-506.1 prohibits Ameritech's proposal to remove its litany of services from the price cap plan, two additional overriding concerns prevent the removal of certain noncompetitive services from the price cap mechanism entirely, even if they are subject to other pricing constraints. First, excluding services from the price cap mechanism would lead to smaller revenue reductions than would otherwise occur if the PCI decreases. The price cap formula is intended to estimate indirectly the amount by which Ameritech Illinois' costs for *all* services, including all noncompetitive services, change over time. In the 1993/94 alternative regulation proceeding, Ameritech Illinois had proposed to exclude basic residential services, which were subject to a statutory rate cap, from the residential basket. With the expectation that the PCI could decrease, Staff opposed Ameritech Illinois' proposal, pointing out that

excluding basic residential rates from the residential basket would preclude rate decreases that properly should be made. GCI Ex. 1.0, pp. 48-49. The Commission agreed with Staff, and ordered that basic residential rates be included in the alternative regulation plan.<sup>2</sup>

This same situation could occur if the Commission approves Ameritech Illinois' current proposal. While cost studies may not be performed annually to update rates for access services, for example, Ameritech Illinois' costs would change over time. Including these services in the price cap mechanism would allow any cost changes to be reflected in rates more quickly than would be practical if, in the alternative, cost studies were required by the Commission to support these same cost changes. GCI Ex. 1.0, p. 49. Moreover, any need to review or investigate cost studies, if required, would only inject further delay into the process of implementing Ameritech's cost changes.

Second, and equally important, if the service quality incentive provisions remain within the price cap mechanism through the service quality index, removal of some noncompetitive services from the price cap mechanism would reduce Ameritech Illinois' incentive to maintain its quality of service consistent with the adopted standards. If, however, the service quality incentive mechanism is administrated separate from the price cap mechanism, as GCI witness Ms. TerKeurst recommends, this concern would be rendered moot since the financial consequences of not meeting the service quality standards would be independent of the amount of noncompetitive revenues in the price cap mechanism. GCI Ex. 1.0, p. 49.

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<sup>2</sup> Alt. Reg. Order at 68-69.

**A. Access Services Should Be Included In The Carrier Basket.**

Ameritech Illinois contends that there is no basis for including access services in the alternative regulation plan since rates for switched access services are now "independently" set based on a Commission-prescribed formula.<sup>3</sup> Specifically, Ameritech contends that because the Commission's Phase II Order in ICC Docket Nos. 97-0601/0602 ("Phase II Order") requires it to price carrier access services at their long run service incremental cost, or LRSIC, plus an allocation of shared and common costs *not to exceed but to be capped at 28.86%*, there is no basis for or need to include carrier access services in the price cap plan.

Ameritech is simply wrong. There are several critical reasons to continue to include carrier access services in the price cap plan. First, contrary to Ameritech Illinois' assertions, the Commission did not prescribe a pricing "formula" for switched access rates. GCI Ex. 1.0, p. 51. Rather, the Commission established a rate cap for those services whereby they must be priced based on forward-looking cost, or LRSIC, with a *maximum* contribution to shared and common costs of 28.86 percent.<sup>4</sup> That is, the Commission has approved a shared and common cost allocation for carrier access services in the range of anywhere between 0% and 28.86%, but the allocation cannot exceed 28.86%. This rate cap in no way precludes reductions to switched access rates below the maximum allowable markup of 28.86%, and should not be used as an excuse

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<sup>3</sup> Ameritech Illinois Ex. 3.0 at 14.

<sup>4</sup> Order in ICC Dockets 97-0601 and 97-0602 Consolidated, at 47-53.

to deprive interexchange carriers and their customers of the benefits associated with rate decreases due to price cap regulation. GCI Ex. 1.0, p. 51.

Staff witness Mr. Koch agrees that the rate caps imposed by the Commission's Phase II Order does not preclude the Commission from including carrier access services in the Carrier Basket. Mr. Koch bases his recommendation that carrier access services continue to be assigned to (and treated within) the Carrier Basket on a correct understanding of the switched access pricing parameters and policy contained in the Commission's Order in Phase II of ICC Docket No. 97-0601/97-0602. Carrier access charges can be reduced within the confines of the alternative regulation plan without violating the Commission's Phase II Order. AT&T Ex. 1.0, p. 6. As Mr. Koch testified, the Phase II Order does not *set* the shared and common cost allocation at 28.86% -- a generous markup. Rather, the Phase II Order simply *caps* the shared and common cost allocation at 28.86%. Tr. 583-585.

Notably, the Commission has not in the past excluded carrier access charges from the parameters and policies of the alternative regulation plan simply because they were subject to independent pricing constraints. For example, at the time the alternative regulation plan was originally adopted, Ameritech Illinois' intrastate access charges were previously capped at the rate level of their interstate counterparts, yet the Commission did not exclude access services from the price cap mechanism because carrier access services were subject to that additional pricing constraint. GCI Ex. 1.0, pp. 50-51. Likewise, the Commission should not exclude access services from the price cap mechanism now.

In addition, continuing to include carrier access services in the price cap mechanism, with one modification, is entirely consistent with forward-looking cost-based

pricing of switched access services. As Ameritech Illinois' cost of providing access services declines over time, switched access rates should properly reflect the reduced cost. Ameritech Illinois' cost reductions are reasonably captured by the PCI, which reflects Ameritech Illinois' input prices and productivity. GCI Ex. 1.0, p. 51. As mentioned above, including carrier access services in the price cap mechanism may also reduce the need to update switched access cost studies periodically, thereby avoiding or deferring lengthy and contentious reviews of Ameritech Illinois' cost studies. Such an outcome is consistent with the goal of reducing regulatory costs and delays. GCI Ex. 1.0, pp. 51-52. In fact, not only will any reduction of access LRSICs be captured by the price cap mechanism, but to the extent Ameritech Illinois' forward looking shared and/or common costs decrease, continuing to include access services in the price cap mechanism would allow this cost reduction to be reflected in access rates as well. Staff's, GCI's and AT&T's current recommendation that carrier access services continue to be included in the Carrier Basket is consistent with this price cap mechanism benefit, and the Commission should adopt it.

To ensure that access rates are updated reliably, however, the rate cap adopted for each switched access rate element in the Phase II Order should be updated each year by the change in the PCI. This will ensure that the cap for each switched access rate element properly reflects the changes in Ameritech Illinois' cost of service on an annual basis. Updating all switched access rate caps by the change in the PCI will also ensure that interexchange carriers, like all other customer classes whose services are subject to the price cap mechanism, benefit from efficiency gains experienced by Ameritech Illinois without the delays and costs of a protracted cost study proceeding. GCI Ex. 1.0, p. 52.

Finally, Ameritech Illinois' proposal to exclude switched access services from the price cap mechanism would also prevent switched access service customers from receiving monetary compensation in the event Ameritech fails to comply with service quality standards. Ameritech Illinois' switched access service customers should receive a financial benefit, either through a bill credit or through a service quality index reduction to the price cap index, if Ameritech Illinois fails to meet the standards in the service quality incentive mechanism. Since interexchange carriers cannot provide their services at all when customers are out of service, they are directly affected by poor repair practices and installation delays and should be compensated like other Ameritech Illinois customer classes. GCI Ex. 1.0, p. 52. This is just one more reason why it is not only appropriate, but necessary, for the Commission to continue to include carrier access services in the Carrier Basket.

For these reasons, Ameritech Illinois' switched and nonswitched access services should continue to be included in the Carrier Basket and should continue to be subject to the price cap mechanism.

**B. UNEs, Interconnection, and Transport and Termination Should Be Included In The Carrier Basket.**

UNEs, Interconnection, and Transport and Termination services should also be included in the Carrier Basket of Ameritech Illinois' alternative regulation plan for the same reasons (discussed above) that carrier access services should continue to be included in the Carrier Basket. AT&T Ex. 1.0, p. 7. Nothing in the Commission's Orders resulting from Ameritech Illinois' TELRIC investigations (ICC Docket No. 96-0486/0569) prohibits reducing the rates for these services below the rates filed in compliance with these Commission orders, nor would reduced rates resulting from the

operation of the price cap mechanism violate the TELRIC requirements provided they do not fall below the pre-marked up levels. AT&T Ex. 1.0, p. 7. GCI witness Ms.

TerKeurst similarly supports including UNEs, Interconnection and Transport and Termination services in the Carrier Basket for the same legal and policy reasons which support including carrier access services in the Carrier Basket. GCI Exhibit 1.0, pp 54-60.

Indeed, although Staff witness Mr. Koch ultimately recommends that UNEs be excluded from the alternative regulation plan, his rationale supports including these elements and services in the plan. In his direct testimony, Mr. Koch supported his initial recommendation to exclude carrier access services from the price cap mechanism -- which he now, upon further reflection and analysis, correctly concludes should be included in the Carrier Basket -- by likening the pricing requirement for carrier access services to that of UNEs, i.e., "based on cost." AT&T Ex. 1.0, p. 7; Staff Exhibit 13.0, p. 38. Like carrier access services, the rates for UNEs, Interconnection and Transport and Termination services are based on the total element long run incremental cost, or TELRIC, of providing the element, plus an allocation of shared and common costs. In fact, the shared and common cost markup for UNEs, Interconnection and Transport and Termination is even more generous than the 28.86% maximum shared and common cost allocation Ameritech is permitted to use when pricing carrier access services. Thus, there is no real fear that including UNEs, Interconnection and Transport and Termination services within the Carrier Basket of the price cap plan will cause those rates to fall below their TELRICs. It is only logical that reductions to TELRIC-based rates are as appropriate as reductions to LRSIC-based rates. AT&T Ex. 1.0, p. 7. As GCI witness

Ms. TerKeurst testified, similar to the treatment AT&T recommends be afforded to switched access services, the nonnegotiated rates for these services should be subject to individual rate caps based on the most recent nonnegotiated TELRIC-based rates approved by the Commission, with the rate caps updated each year by the change in the PCI. GCI Ex. 1.0, p. 54.

Ameritech again contends that UNEs (and, presumably, interconnection and transport and termination services) should be excluded from the alternative regulation mechanism for the same reasons the Commission excluded such offerings in its TELRIC Order in ICC Docket Nos. 96-0486/0569.<sup>5</sup> In that proceeding, the Commission excluded UNEs, interconnection, and transport and termination services from the alternative regulation mechanism “*at the present time*” because the passage of the 1996 Act created certain distinctions which set these services apart from other noncompetitive services:

The Commission concludes that UNEs, interconnection and transport and termination rates should be excluded, *at the present time*, for the alternative regulation plan currently applicable to Ameritech Illinois’ noncompetitive services. . . . First, prices for these services are subject to negotiation between carriers arriving at interconnection agreements. Second, if the carriers fail to reach agreement, then the Commission must establish prices in conformity with specific standards established in the Act. Under the Act the prices must be “based on cost.” This contrasts with the alternative regulation plan, which, while it did not eliminate the Commission’s commitment to cost-based rates, did sever the formerly strict relationship between Ameritech Illinois’ rates and its operating costs. Moreover, automatic annual changes in prices under alternative regulation are based on a price formula which includes a consumer dividend and service quality component which arguably are not cost-based and may not be as relevant in the UNE environment as they are for other noncompetitive services provided to end-users.<sup>6</sup>

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<sup>5</sup> Ameritech Illinois Ex. 3.0 at 15.

<sup>6</sup> ICC Order in ICC Docket Nos. 96-0486/0569 (TELRIC Order) at 85 (emphasis supplied).

Prior to the Commission's TELRIC Order, Ameritech Illinois' unbundled loops, interconnection and transport and termination services were *included* in the Carrier Basket until the TELRIC Order removed them from the price cap mechanism. GCI Ex. 1.0, p. 55. The TELRIC Order was the Commission's first opportunity to analyze the numerous and complex issues involved with establishing TELRIC-based pricing – a concept which, at that time, was a new one recently introduced by the 1996 federal Act. The fact that the Commission's analysis and conclusion section excluding UNEs, interconnection and transport and termination from the alternative regulation plan *at the present time* spans a single paragraph within a 137 page single-spaced order is directly indicative of the fact that this issue did not receive nearly the degree of scrutiny that a numerous number of other issues received. Tellingly, the fact that the Commission expressly stated that it was excluding UNEs, interconnection and transport and termination services *at the present time* certainly suggests that the Commission, given additional information and the passage of time to see how the regulatory landscape would evolve in light of the passage of the then recent federal Act, may decide to revisit the issue *at some future time*. This is that time.

Given the benefits resulting from including UNEs, interconnection and transport and termination services in the price cap plan, the fact that TELRIC rates are subject to negotiation does not provide a sufficient basis upon which to exclude these services from the alternative regulation mechanism. In fact, including these services in an alternative regulation mechanism would not in any way limit Ameritech Illinois' ability to negotiate rates. GCI Ex. 1.0, p. 55. Ameritech Illinois is not required to change the rates of each and every service in a given basket to comply with the requirements of a price cap

formula. Instead, the company can selectively apply mandated rate changes within a basket, subject to the annual pricing flexibility limits and any individual rate constraints that may exist. As a result, Ameritech can maintain negotiated rates even under price caps. Id.

The Commission's second reason for excluding UNEs, interconnection and transport and termination services from the alternative regulation plan -- that is, that the Commission must establish prices in conformity with the 1996 Act if carriers fail to agree on rates -- is also insufficient to deprive both carrier and end user customers of the benefits that would directly result from including these services in the plan. GCI Ex. 1.0, p. 56. If UNEs, interconnection, and transport and termination services are placed in the Carrier Basket and their nonnegotiated rates are capped at the most recent nonnegotiated TELRIC rates approved by the Commission, with the caps updated annually by the change in the PCI, inclusion of these services in the price cap mechanism would not violate the pricing requirements of the 1996 Act. Id. As with carrier access services, there is no inconsistency between forward-looking cost-based pricing and including services subject to that pricing standard in the price cap mechanism. The forward-looking cost-based rates adopted in the TELRIC Order for non-negotiated UNE, interconnection, and transport and termination services are rate *caps* or *ceilings*; they are not price floors or freezes below which these rates cannot fall. Further, the price cap formula is designed to capture efficiency gains achieved by Ameritech Illinois in providing service over time. There is no reason to assume that these efficiency gains will not also flow to the provision of UNEs, interconnection, and transport and termination

services. It would be grossly inequitable to deprive CLECs and their customers of these efficiencies. Id.

The Commission's concern that the consumer dividend and the service quality adjustments may not be cost-based or relevant in the UNE environment is also, respectfully, unfounded. The consumer dividend is designed to share with customers the improvements expected in excess of Ameritech Illinois' historical productivity levels. There is no reason that UNEs, interconnection, and transport and termination services would not also benefit from the technological changes and other improvements supporting the consumer dividend. GCI Ex. 1.0, pp. 56-57. As GCI witness Dr. Selwyn explained, the consumer dividend should not be eliminated in this proceeding. See GCI Ex. 3.0 generally.

As GCI witness Ms. TerKeurst testified, any revenue adjustments due to the service quality incentive mechanism can be equated with changes in Ameritech's cost of offering service. GCI Ex. 1.0, p. 57. As the Commission has already recognized,<sup>7</sup> the existing service quality adjustments appear to be less than the cost Ameritech Illinois would incur to correct its OOS<sup>24</sup> problems, since it chose to bear the PCI reductions rather than comply with the performance standard. Id. Thus, to the extent Ameritech Illinois chooses not to comply, the incentive payment is appropriately viewed as being less than the cost savings realized by Ameritech Illinois as a result of its noncompliant behavior. There is no question that degradation of Ameritech Illinois' service quality adversely affects competitive LECs. For example, unbundled loop trouble reports and installation orders are put into the same

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<sup>7</sup> Merger Order at 3 and fn. 3.

queue as Ameritech Illinois' retail services for the dispatch of field technicians. Further, competitive LEC customers cannot call an Ameritech Illinois customer who does not have working service. Thus, service degradation for retail customers is mirrored by service degradation to UNE providers, whether or not competitive LEC service quality measures are explicitly included in the service quality incentive mechanism. Id.

For all the reasons set forth above, UNEs, interconnection and transport and termination services should be included in the Carrier Basket under the alternative regulation plan with one modification. The nonnegotiated rates for those services should be subject to individual price caps based on the most recent nonnegotiated TELRIC rates approved by the Commission and should be updated annually by the change in the PCI.

**C. Wholesale Services Should Be Included In The Alternative Regulation Plan And Placed In The Same Basket As The Corresponding Retail Service.**

Ameritech Illinois claims that there is no basis for including its wholesale services in the alternative regulation plan since these services are priced in accordance with the wholesale formula adopted by the Commission in Dockets 95-0458/0531 (consol.), and may also be subject to a capping mechanism if Ameritech Illinois' proposal is adopted in Docket 98-0860.<sup>8</sup> In that docket, Ameritech Illinois has proposed that the rates for wholesale services whose retail counterparts are classified as competitive be capped at their current levels. GCI Ex. 1.0, p. 58.

For all the same reasons noted above, Ameritech's wholesale services should be included within the price cap mechanism. Additionally, Ameritech Illinois' wholesale

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<sup>8</sup> Ameritech Illinois Ex. 3.0 at 15.

services should receive a financial benefit, either through a bill credit or through a service quality adjustment, if Ameritech Illinois fails to meet its service quality standards. GCI Ex. 1.0, p. 58. Ameritech Illinois has confirmed that field technicians install and repair network access lines on a nondiscriminatory basis whether they are used by Ameritech Illinois' retail customers or are sold on a wholesale basis to competitive LECs.<sup>9</sup> As a result, end user consumers purchasing resold local exchange service are affected by poor service quality, just as are Ameritech Illinois' retail customers.

Ameritech's alleged concern with the price cap treatment of wholesale services in those situations where the wholesale service's retail counterpart has been reclassified as competitive is unconvincing. In this scenario, while Ameritech may desire to raise its retail rates (particularly if it retains market power for the reclassified service), commensurate wholesale price increases may be inconsistent with price cap constraints. Indeed, according to GCI witness Ms. TerKeurst, Ameritech Illinois has historically made such wholesale price increases to date through special tariff filings outside the price cap mechanism. GCI Ex. 1.0, p. 59. As GCI witness Ms. TerKeurst also testified, this scenario would cease to exist if the Commission adopts the view she advocated in the reclassification investigation (ICC Docket No. 98-0860) that a service should not be classified as competitive under the Illinois Public Utilities Act except on the basis of *facilities-based* competition. Using that standard, it is likely that a wholesale service could be reclassified as competitive at the same time that its retail counterpart is classified as competitive. GCI Ex. 1.0, p. 59.

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<sup>9</sup> GCI Ex. 1.0, pp. 58-59.

AT&T concurs with the recommendation of Staff witness Mr. Koch and GCI witness Ms. TerKeurst that wholesale services continue to be included in the price cap mechanism. AT&T Ex. 1.0, p. 8. However, Mr. Koch recommends that Ameritech Illinois' wholesale services remain in the Carrier Basket. Although the wholesale services Ameritech provides are indeed carrier services, it is more appropriate to include these services in the same basket as the corresponding Ameritech retail service. AT&T Ex. 1.0, p. 8; GCI Ex. 1.0, pp. 59-60. If wholesale services are assigned in this manner, reductions associated with the mandated pricing relationship between Ameritech Illinois' retail services and wholesale services as established in the Commission's Wholesale Order would be addressed within the relative retail consumer and business service baskets. AT&T Ex. 1.0, p. 8. Carrier access services and UNEs, Interconnection, and Transport and Termination services would not be deprived of reductions that Ameritech could, and no doubt would, otherwise direct to wholesale services.

As GCI witness Ms. TerKeurst also testified, if the companion retail service has been classified as competitive, the wholesale service should be placed in the basket where the retail service would have been if it were classified as noncompetitive. That way, if Ameritech raises retail rates of services prematurely reclassified as competitive and correspondingly increases its wholesale rates for these services, the wholesale rate increases must be offset by reductions in the rates of other noncompetitive services within that same basket. GCI Ex. 1.0, p. 60.

Furthermore, because resale of residential wholesale services is restricted to residential consumers, the same consumer classes will be addressed independent of other customer classes. Contrary to the objective offered by Ameritech Illinois witness Mr.

O'Brien (i.e., the purpose of a single basket is to rectify past differences between basic residential services and other services (Am Ill. Ex. 3.1, p. 12)), assigning wholesale services would restrict Ameritech Illinois's ability to unilaterally rebalance its noncompetitive rates. AT&T Ex. 1.0, p. 8.

#### **IV. Service Quality**

Staff witness Mr. McClerren discusses the fact that Condition 30 of the Commission's Merger Order in ICC Docket No. 98-0555 imposes performance measurements and penalties for failure to meet those performance benchmarks upon Ameritech Illinois. Specifically, according to Mr. McClerren, Condition 30 requires Ameritech Illinois to take 122 performance measurements used by its parent company, SBC, and, after making necessary state-specific modifications, to implement them in Illinois. Condition 30 also subjects Ameritech Illinois to a performance penalty plan in the event Ameritech Illinois provides substandard wholesale services to CLECs. According to Staff witness Mr. McClerren, Condition 30 expires within three years of the merger closing date, i.e., October 2002. AT&T Ex. 1.0, p. 10.

In addition, Staff witness Mr. Hoagg notes that Section 13-506.1 of the Illinois Public Utilities Act requires that any alternative regulation plan must "maintain the quality and availability of telecommunications services." ICC Staff Ex. 15.0, p. 2. As Ms. TerKeurst correctly notes, end user consumers purchasing resold local exchange service are affected by poor Ameritech Illinois service quality in the same way as Ameritech Illinois' retail customers. GCI Exhibit 1.0, p. 59.

Accordingly, to ensure the quality of wholesale services and to ensure compliance with Section 13-506.1 of the Illinois Public Utilities Act, AT&T agrees with Mr.

McClerren's recommendation that all performance measurements and the Remedy Plan in effect pursuant to the Merger conditions scheduled to expire in October 2002 should continue, without interruption, during the life of the alternative regulation plan. In fact, it is essential that this occur if service quality is to be maintained. Thus, Mr. McClerren's suggestion that the Commission should order that the performance measurements and Remedy Plan be continue during the life of the alternative regulation plan is appropriate and should be adopted by the Commission. AT&T Ex. 1.0, p. 11.

## **VII. Rate Design**

### **A. If Ameritech Is Permitted To Rebalance Its Rates, The Commission Must Require Ameritech To Implement The \$10,379,827 In Access Revenue Reductions It Admits Are Appropriate.**

In including carrier access services in the Carrier Basket of the alternative regulation plan, the Commission should be sure to account for the fact that Ameritech's current intrastate switched access revenues are currently at least \$10,000,000 greater than they should be based on Ameritech's most recent LRSIC study for carrier access services – a fact Ameritech itself admits. AT&T Ex. 1.0, pp. 8-9. Thus, while the witnesses in this case have largely accepted Ameritech Illinois' quantification of access service revenue reductions included in its rate rebalancing proposal, Ameritech Illinois states that its rate rebalancing proposal includes \$43,775,063 of reductions to its intrastate switched access services resulting from the Commission Order in Phase II of Docket 97-0601/97-0602. Am. Ill. Ex. 9.0, pp. 13-15. Of this amount, an estimate of only \$33,295,236 in annual revenue reductions has, in fact, already been implemented by Ameritech through

tariffed rate reductions.<sup>10</sup> AT&T Ex. 1.0, pp. 8-9. The remaining \$10,379,827 of estimated annual revenue reductions are those Ameritech Illinois anticipates will result once its updated access LRSICs, filed in response to the Commission's Order in Phase II of Docket 97-0601/97-0602, are investigated and compliant rates are filed. AT&T Ex. 1.0, p. 9.

According to the Direct Testimony of Ameritech witness Mr. Van Lieshout (adopted by Mr. Sorenson), Ameritech Illinois originally expected that the investigation of its new access LRSICs would be completed within the same time frame as this proceeding. To date, however, no docket has yet been initiated to (and, accordingly, no schedule has been established to) investigate these new access LRSICs. AT&T Ex. 1.0, p. 9. Irrespective of this fact, parties have based their respective rate design recommendations in part upon this yet-to-be realized additional \$10 million dollar access revenue reduction. Accordingly, to the extent the Commission allows Ameritech to rebalance its rates in this proceeding, the Commission must require Ameritech Illinois to implement the additional \$10,379,827 of anticipated access revenue reductions concurrent with any approved rate increases. AT&T Ex. 1.0, pp. 9-10. While this will not eliminate the need to investigate Ameritech's updated access LRSICs, the Commission may safely assume that Ameritech Illinois' proposed cost-based access service reduction would be the *minimum* reduction that would result from a Commission investigation. If further reductions are warranted upon completion of an investigation, those reductions can be implemented at that time. AT&T Ex. 1.0, p. 10.

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<sup>10</sup> On January 8, 2001, AT&T filed a Letter Of Objection to Ameritech Illinois's access service tariff filing, stating that Ameritech Illinois has understated its reductions by approximately twenty million dollars. See AT&T Ex. 1.0, Att. 1.

**B. The Commission Must Ensure That Any Rate Design Changes Do Not Negatively Impact The Reciprocal Compensation Rulemaking.**

Staff witness Mr. Hanson recommends that the Commission, should it approve any rate rebalancing for Ameritech Illinois, offset increases in residential network access line charges with decreases in residential Band A usage rates. AT&T Ex. 1.0, p. 11. While AT&T has not taken a position as to the appropriateness of reductions to residential Band A usage rates in this proceeding, the Commission itself appears to believe that reductions to residential Band A usage *costs* may be appropriate in order to simply sustain current residential Band A usage rates. AT&T Ex. 1.0, p. 12. In its Order in ICC Docket No. 00-0555 initiating the Rulemaking for Reciprocal Compensation for Internet Service Provider-bound Traffic, the Commission stated:

One example of a change in the utilization of the local exchange network associated with Internet traffic is the increased call hold-time associated with dial-up Internet usage. Since current reciprocal compensation rates are based on traditional voice calls that, on average, exhibit shorter holding times, it may be inappropriate to apply these rates to local ISP-bound traffic (dial-up Internet traffic routed to an ISP). To exacerbate this problem, the flat-rated local revenue received by the local exchange provider may be insufficient to recover the per-minute of use cost associated with reciprocal compensation payments.

Initiating Order dated August 17, 2000, p. 1.

As AT&T witness Ms. Hegstrom testified, a Staff-chaired workshop was conducted in ICC Docket No. 00-0555 on January 17 and 18, 2001 to discuss in what manner the Commission might address this issue, if at all. AT&T Ex. 1.0, p. 12. Among other options, a general discussion concerning adjusting Band A usage rates upwards ensued. No consensus on issues was reached during the workshop. AT&T Ex. 1.0, p. 12. However, given the seeming presumption of a “problem”, and given the relationship

between the non-duration generated revenues and the duration generated costs of Band A usage, it is short-sighted for Staff to recommend, and inadvisable for the Commission to adopt, any modification to rates in this proceeding that would cause a potentially anti-competitive resolution (i.e., a reduction to reciprocal compensation charges to Ameritech based simply upon alleged inadequate revenues, rather than based on the costs of providing reciprocal compensation) in the pending ICC Docket No. 00-0555 Rulemaking. AT&T Ex. 1.0, p. 12. Thus, AT&T recommends that the Commission, in issuing its Order in this proceeding, ensure that it does not adopt a rate rebalancing plan that will prejudice and anticompetitively affect the issues being addressed concurrently by the Commission in ICC Docket No. 00-0555.

WHEREFORE, AT&T Communications of Illinois, Inc. respectfully requests that the Commission, to the extent it permits Ameritech Illinois to continue to operate under an alternative form of regulation, require Ameritech Illinois to include carrier access services, UNEs, interconnection and transport and termination services in the Carrier Basket, require Ameritech Illinois to include its resold wholesale services in the same basket as the corresponding retail service or, if the retail service has been classified as competitive, in the basket it would be in if it were included within the alternative regulation plan, order that the performance measurements and Remedy Plan implemented pursuant to Condition 30 of the Merger Order shall continue during the life of the alternative regulation plan and, to the extent the Commission permits Ameritech to engage in any rate rebalancing, require Ameritech to implement the additional \$10,379,827 in access revenue reductions it admits are appropriate and ensure that any

such rate rebalancing implemented does not negatively or anticompetitively impact the issues being addressed in ICC Docket No. 00-0555.

Respectfully submitted,

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Dated: March 22, 2001

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

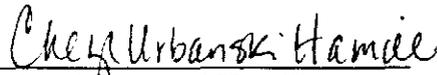
<b>Illinois Bell Telephone Company</b>	}	<b>98-0252</b>
<b>Application for review of alternative regulation plan.</b>		
<b>Illinois Bell Telephone Company</b>	}	<b>98-0335</b>
<b>Petition to rebalance Illinois Bell Telephone Company's Carrier Access and Network Access Line Rates.</b>		<b>(cons.)</b>
<b>Citizens Utility Board and</b>		
<b>The People of the State of Illinois</b>	}	
<b>-vs-</b>		
<b>Illinois Bell Telephone Company</b>		<b>00-0764</b>
<b>Verified Complaint for a Reduction in Illinois Bell Telephone Company's Rates and Other Relief.</b>		

**NOTICE OF FILING**

PLEASE TAKE NOTICE that we have this 22nd day of March, 2001, filed with the Clerk of the Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois 62701, the Initial Brief of AT&T Communications of Illinois, Inc. in the above-captioned proceeding.

**PROOF OF SERVICE**

I, Cheryl Urbanski Hamill, an attorney, hereby certify that copies of the Initial Brief of AT&T Communications of Illinois, Inc. were served on all parties on the service list on this 22nd day of March, 2001, via E-Mail and U.S. Mail.

  
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