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Testimony of Pamela W. Rayome. (70 pgs)

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The Cincinnati Bell Telephone Company For Approval of an Alternative Form of Regulation and for a Threshold Increase in Rates	))))	Case No. 96-899-TP-ALT 70 PS?

UNREDACTED TESTIMONY OF PAMELA W. RAYOME FILED UNDER SEAL

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Cincinnati Bell Telephone Company for Approval of a Retail Pricing Plan Which May Result in Future Rate Increases and for a New Alternative Regulation Plan	))))))	Case No. 96-899-TP-ALT

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SUPPLEMENTAL TESTIMONY

OF

PAMELA W. RAYOME

(UNREDACTED VERSION)

Dated: December 17, 1997

INTRODUCTION

Q. Please state your name and business affiliation.

A. My name is Pamela W. Rayome. I am a Director, Market Management, of the Cincinnati Bell Telephone Company ("Company" or "CBT").

Q. Are you the same Pamela W. Rayome who has submitted Direct Testimony in this proceeding?

A. Yes.

Q. What is the purpose of your Supplemental Testimony?

A. The purpose of my Supplemental Testimony is to support a number of the Company's Objections to the Staff Report of Investigation ("SRI") in this proceeding which was filed on November 17, 1997. Specifically, I discuss the following key areas of the Company's concerns from a retail marketing perspective:

- **Recent advances in competition** in CBT's market and the proper weight that these new marketplace dynamics will have in determining the degree of marketing and pricing flexibility afforded CBT in its new alternative regulation plan.

- **The significant competitive disadvantage** that the sum total of the Staff's service classification, service basket placements, price cap rules and tariff filing requirements would create for CBT relative to its competitors.
- Why the Staff's singular and narrow focus on a **market share loss benchmark** to trigger additional marketing flexibility for CBT is a serious flaw that should be rejected by the Commission.
- The Company's assessment of **the errors and omissions in the Staff's recommended pricing proposals**, both in terms of the rate rebalancing imperative, individual product pricing and the pricing rules recommended by Staff.

CINCINNATI AS AN ATTRACTIVE MARKET FOR COMPETITIVE ENTRY

Q. During the last few years, has CBT been aware of the activities of companies that have demonstrated an interest in competing for telecommunications customers in its territory?

A. Yes. As outlined in the filing made with the Commission at the outset of this case, CBT has gathered materials showing that an ever-increasing number of entities have demonstrated an interest in entering the CBT operating territory either as facilities based companies or as resellers.

Q. Can you identify some of these entities?

A. The companies that have either entered the CBT operating area or expressed an interest in doing so include some of the largest companies in the United States, such as Time Warner, MCI and AT&T. In addition other well financed companies in the communications industry such as TCG, ICG, ICI and others have expressed interest in entering the market in Cincinnati. The vast majority of these companies, based on publicly available information, are well financed, well equipped to compete and are aggressive in their business activities.

Q. Do any of these companies possess certificates and other business relationships that would enable them to conduct telecommunications operations in Cincinnati with little delay?

A. Most definitely. As mentioned in my prior testimony and in the materials filed with the Commission previously in this case, many of these companies, including MCI, Time Warner, TCG, ICG, ICI and others have certificates issued by this Commission that would enable them to compete with CBT to satisfy the telecommunications needs of the business and residential customers in Cincinnati. In fact, CBT has recently executed interconnection agreements with ten (10) companies including MCI, Time Warner, TCG and ICI and other interconnection agreements are being negotiated.

Q. Has CBT examined the activities of these entities in other locations to determine their past activities and strategies for entering a particular market?

A. Yes. CBT has gathered data showing that these entities have both articulated and implemented aggressive strategies to gain customers in the cities that they enter. Senior managers of these companies have stated publicly that they intend to enter the Cincinnati market in much the same manner that they entered other markets. These companies have the capability and expansion history to compete actively in Cincinnati.

Q. What are the major competitive elements in the telecommunications marketplace?

A. Since the products, i.e. telecommunications and the transmission of either voice messages or data, are essentially the same for all players in the market, competitors basically have advertising or promotions and price to distinguish themselves from one another. We can package various communications products in a variety of ways to make them as attractive as possible to customers, and we then compete on price.

Q. In the formulation of the marketing strategies for CBT, has the presence of current and future competitors influenced the decisions of CBT?

A. Yes, most definitely. The awareness that CBT has gained as to the activities of current and future competitors, including the fact that large, well financed companies are poised to enter the local market has influenced the marketing and business plans of CBT, especially the plans for pricing and product development. Indeed, the fact that these companies are poised to enter the local market and have aggressively entered other markets is a primary reason that this case was filed.

SIGNIFICANT ADVANCES IN THE COMPETITIVE MARKETPLACE

Q. How has CBT's assessment of the competitive market changed since CBT *filed its application in February, 1997?*

A. Over the last year, advances in the competitive marketplace reinforce the Company's original position that CBT faces increasing competitive risk and that customers will have additional competitive alternatives over the life of CBT's new alternative regulation plan. The presence of these competitive dynamics has essentially been ignored by the Staff in its review of CBT's request for immediate marketing and pricing flexibility.

Q. What additional evidence is there of competition in the CBT service area as of December 17, 1997?

A. In addition to the significant body of evidence presented in the original Commitment 2000 plan (see Direct Testimony of P.W. Rayome and Exhibit 3 of CBT's application) CBT has proactively advanced market entry for several new competitors by withdrawing contentious court litigation, unbundling its network and concluding interconnection agreements with numerous parties. The table below provides highlights of some of these developments:

Table 1: Summary of Competitive Advances in CBT Service Territory

Companies Filed to Provide Competitive Local Service in CBT Territory(see PWR-1)	20
Companies with whom CBT Has Signed Interconnection Agreements: MCI, Time Warner Communications, Intermedia, Teleport, ICG, Airtouch, Ameritech, GTE Wireless, NEXTEL, AT&T Wireless.	10
Companies with whom CBT Has Signed Reseller Agreements: Local Fone.	1
Companies with whom CBT continues Interconnection Negotiations (Interconnection & Resellers).	9
Total Number of Competitive/Alternative Networks in CBT Service Territory: MCI, Time Warner, TCG, Intermedia.	4
Total number of Companies Planning to Build Networks in the CBT Service territory: ICG, WinStar	2
Companies with whom CBT is currently Exchanging Local Traffic: Time Warner	1

Q. Have CBT's competitors provided any direct evidence of their level of activity within the course of the last year, during which CBT's new alternative regulation plan has been under consideration?

A. Yes. Based on their own admissions in public statements and in response to CBT discovery requests, competitors are actively pursuing customers for local telephone services, and are providing such services to customers today. Specifically, MCI and Time Warner in response to CBT's interrogatories, confirmed several specific marketplace developments.

Q. What specifics did Time Warner confirm?

A.

- Time Warner admits that they have upgraded their cable television facilities in the CBT service area and are leasing bandwidth to Time Warner AxS, the precursor to Time Warner Communications.
- Time Warner admits they have constructed facilities in highly concentrated business areas of the CBT service area, including to highly valued business customers of CBT.
- Time Warner admits that it is providing competitive local service to customers in the Cincinnati Exchange of CBT's service area.
- Time Warner has filed an extensive tariff for competitive local service in the CBT service area.

Q. What specifics did MCI confirm?

A.

- MCI admits a public document submitted by CBT is a true and accurate copy of a map reflecting MCImetro's LCN-1 fiber optic cable route within the city of Cincinnati.
- MCI admits they will activate a telecommunications switch to provide local service in the Cincinnati market by the end of 1997.

Q. What impact does the presence of competitors have on CBT?

A. As Dr. Emmerson indicates in his supplemental testimony, the presence of competitors in CBT's market constrains CBT's behavior today, and the current and future state of competition is one factor upon which the marketing and pricing flexibilities for CBT's new alternative regulation plan will be determined.

Q. Do competitive local service switching capabilities exist in operational form today in CBT's service territory?

A. Yes. On November 22, 1997, Time Warner Communications announced that its 5ESS switch in Cincinnati was operational and providing local service to customers. This is the first competitive local switching capability that has been activated in CBT's area, and its presence increases the extent to which Time Warner, and potentially others, can compete with CBT.

Q. Does the presence of comparable 5ESS switching capability, in combination with a competitors' local facilities, afford CBT's competitors the opportunity to expand the available alternatives to CBT's local exchange services?

A. Yes. A 5ESS switch or other switch with similar capabilities would provide the ability for CBT's competitor to offer the same vertical service features that the Company offers to its customers today. For example, these switches, in combination with the purchase of UNEs from CBT or the competitors own facilities, will allow new entrants to provision Custom Calling and Custom Calling PLUS services, including popular features such as Call Waiting and CallerID.

Q. Has Time Warner utilized its switching capability, interconnection arrangements and end user sales efforts to become operational in CBT's area as a direct competitor of basic local exchange service?

A. Yes. These capabilities have enabled Time Warner to process its first local call within the Cincinnati exchange on November 21, 1997, triggering this Commission's Fresh Look opportunities for CBT end user customers. The Fresh Look provision of the Local Service Guidelines was activated by Time Warner Communication's official notice to the PUCO on November 26, 1997. The "Fresh Look" period will continue until May 25, 1998.

Q. ***For what portion of the CBT service territory was "Fresh Look" activated?***

A. According to the chart on the PUCO web site, all of Hamilton County except the far northwest corner served by the Harrison and Shandon exchanges is in the "Fresh Look" Window at this time. This Fresh Look area, which contains the majority of CBT's access lines[1] qualifies as actively competitive.

Q. What does the activation of the Fresh Look Provisions mean to CBT's customers?

A. The direct result of the activation of the PUCO's Fresh Look Provisions is that 1323 customers within CBT's market area received the attached letter, reviewed and approved in advance by the PUCO, dated December 8, 1997 (See PWR-2 attached). The letter highlights the competitive alternatives now available to these customers with long term agreements for selected CBT services.

Q. What is the magnitude of the revenue at risk to competitive loss under the provisions of CBT's Fresh Look window currently in effect?

A. CBT's initial analysis of the contracts that fall under the "Fresh Look" provision *window in the designated Hamilton county NXXs shows that CBT is at great risk* of losing substantial revenue from the business market due to this opportunity as the following chart shows:

Types of Businesses	Contract Elements	Annual Revenue
Selected customers: Government Agencies, Schools/Education, Hospitals and Health Care, Financial/Insurance	400 +	$6.0 m +
Total In Play in the Cincinnati Exchange	*1600 +*	*$21.0 m +*

Q. Why has CBT focused on these specific business types for this analysis?

A. The competitors active in the CBT service area have self-identified through various means the businesses that will attract their immediate attention. NECs are actively pursuing these customers and are building their networks in the vicinity of these businesses.

Q. Does the annual revenue figure above indicate the total financial risk CBT faces as a direct result of the activations of the "Fresh Look" window?

A. No. The total risk is far greater. The annual revenue figure above represents only that portion of the business customers' revenue under contract and subject to fresh look. It does not include the annual revenue for those telecommunication products and services not under contract with CBT at this time. Business customers, currently served by CBT, are receiving competitive proposals for all

[1] 78.0% of CBT's non-residence access lines are in the Cincinnati exchange. For residence, the percentage is 67.4% giving a total of 70.2% of CBT's lines in this one exchange (Date Certain quantities).

services whether they are under contract or not. Therefore, the risk to CBT is greater than the figures shown above. Competitive losses will not be limited to the revenue under contract, but will extend to additional losses for basic access services, vertical and ancillary features, DA and operator services, and all non-contractual services. Further, these business services, whether under contract or not, provide substantial financial support for below cost residential service throughout the CBT territory, thus further increasing CBT's financial risk and reducing funding for low cost residential service.

Q. **Now that Time Warner is operational in the CBT service area, can CBT identify local service customers it has lost to Time Warner Communications?**

A. It is not possible for CBT to know at any point just how many local service customers Time Warner is serving, or any other NEC for that matter. Facility based NECs, such as Time Warner, can serve new customers or provide new/additional services to CBT's current customers without CBT's knowledge. In short, CBT cannot without the cooperation of the NECs, or a mandate from the Commission, identify the number of customers/services that competitors are providing in the Cincinnati market.

Q. Has CBT requested cooperation from any NEC in determining the size of any telecommunications service market, and the representative share of all participants?

A. Yes. CBT served discovery on TWC, MCI and Intermedia requesting whether the parties would be willing to submit customer number data to CBT, the PUCO and/or a third party for the purposes mentioned above. To date, only MCI has responded, indicating that it would not be forthcoming in this regard unless all avenues of legal challenge to such a request had been exhausted.

Q Does CBT have any specific evidence to provide further understanding of which market segments NECs plan to serve?

A. Yes. Tom Cloud, General Manager of Time Warner Communications, stated in a Cincinnati Enquirer article dated November 22, 1997 that Time Warner initially will focus on business customers using 10 lines or more.

Q. What evidence does CBT have that Time Warner has constructed facilities in the Cincinnati market in support of its publicly announced objective to serve business customers?

A. Permits for excavation issued by the city of Blue Ash show Time Warner has extended its fiber optic cable plant onto private property to specifically feed current large business customers including Procter & Gamble, Hewlett Packard, Ohio Casualty and Ethicon.

Q. How is Time Warner specifically expanding facilities based access to high-profile business customers?

A. In response to requests for admission served by CBT, Time Warner states that the above noted public documents represent work done by Time Warner Cable. Further, in responses to other requests for admission, Time Warner states that the upgraded cable is not currently capable of being used for voice and data transmission <u>to residences within the service territory</u>. Since Time Warner has previously stated publicly they do not intend to focus on the residential customer at this time, such an admission is not surprising. The Time Warner admissions are more important for what was not said than what was said. Specifically, the admissions did not state that portions of the cable were not capable of currently providing voice and data to businesses. CBT believes that construction of fiber transmission plant by Time Warner Cable is guided in part by Time Warner's intention to provide facility based telecommunications services to business customers through its affiliate Time Warner Communications.

Q What evidence supports this contention?

A. In response to requests for admission served by CBT, Time Warner admitted Time Warner Cable will be leasing bandwidth to its affiliate, Time Warner AxS, the precursor to Time Warner Communications. Further, Time Warner admitted that Time Warner AxS is providing "path engineering and labor services" in this endeavor.

Q. What is the significance of Time Warner's facilities based entry strategy to CBT?

A. Time Warner's entry strategy has broad implications for competition in the Cincinnati market. Besides the obvious impact of only serving the lucrative high volume business market, Time Warner AxS's admission that it leases bandwidth from Time Warner Cable portends a business strategy that encompasses an extremely broad cross-section of CBT's market area. Such an approach allows access to fiber-based feeder to business parks, multi-tenant office complexes or office campuses, and directly to the buildings of valued CBT business customers. Given those capabilities the Commission should recognize that CBT faces facilities based competition at least throughout the portion of its service area covered by Time Warner Cable.

Q. Have other competitors indicated similar facilities based expansion plans?

A. Records at the City of Cincinnati Department of Permits shows that ICI has extended its fiber optic cable installation to cover a significant portion of the downtown Cincinnati business district. Specific placement locations include operational CBT business customer locations at the 125 E. Court Building, and the multi-tenant office buildings at 37 W. Seventh and 105 W. Fourth. TCG has completed construction of this network.

Q. Is CBT exchanging local traffic with competitive providers today?

A. Yes. CBT has been exchanging local traffic with Time Warner since November 21, 1997. Additional NEC local traffic exchange is projected to take place prior to the commencement of hearings in this case.

Q. What market has Local Fone indicated that it is serving ?

A. As the first reseller of local service in Cincinnati, Local Fone is targeting former CBT customers disconnected for non-payment of phone bills, or the high risk subscriber market including residence customers. CBT draws this conclusion from the newspaper advertising placed by Local Fone Service in second-tier or "free" newspapers in the CBT service area. The ads read, in part:

Phone Disconnected? Can't pay your phone bills? Owe the phone company $100's? Get a fresh start with a new phone number! No Deposits, No TurnDowns.

Service can be purchased by phone, or at any of five locations in the CBT service area, according to Local Fone's advertising.

Q **Is LEC-Center processing indicative of the total level of competition CBT faces?**

A. No. Orders processed through the LEC Center only indicate instances where a NEC is either reselling CBT telecommunications services or instances of NECs purchasing unbundled network elements (UNEs). NECs that provide services via their own network would not provide any information to CBT regarding the type of service or to whom the service was provided.

Q. **How many NECs authorized to offer service in CBT's market have filed tariffs with the PUCO and have received approval to offer those services to CBT customers?**

A. Time Warner has filed tariffs for telecommunication services that compete with CBT services in all four cells. These services are outlined specifically in Attachment PWR -3 of this testimony. I conclude that direct competitive alternatives exist for these CBT services within the market and that the Commission has explicitly recognized that this is the case. CBT submits that the public tariff filings made by the NECs for the Cincinnati Bell Telephone service area prove what services are being sold now by these authorized competitive local service providers.

Q. Are there any further updates on functionally equivalent services available in the CBT service area that compete in whole or in part with CBT services?

A. Yes. As discussed in the original Commitment 2000 Plan filing, CBT believes wireless communication continues to provide a functionally equivalent alternative to CBT wireline services in certain circumstances. Additionally, three active providers of wireless voice and data applications – Ameritech, Airtouch and GTE Wireless – have now been joined by NEXTEL. These four competitors are increasingly using a broad range of advertising media to communicate availability and reduced prices for their services.

Q. In what ways are these wireless providers putting competitive pressure on CBT's wireline services and features?

A. As CBT stated in the original filing of the Commitment 2000 plan, wireless communications is a functionally equivalent service/solution to many CBT wire line products. The rapid drop in basic wireless access rates and per minute usage charges, coupled with increasing partnership and sales channel deals with local/national retail providers, makes wireless communications more affordable and more readily available than just a year ago and an even more formidable solutions alternative for certain current CBT customers. Focusing on minutes-of-use, – inclusive of voice and data on wire line and wireless medium –, the market "pie" is getting bigger and CBT's market share is shrinking. As wireless solutions become increasingly less expensive and readily available, customers are using alternatives to CBT wire line services – residence, non-residence, CBT pay phones – for convenience, alternative communications, and the mobility wireless communications affords the user.

Q. What are some examples of the current wireless pricing in the CBT service area?

A. In December of 1997, Airtouch Cellular and its sales agents are broadly advertising

- $9.99 Wireless Access Fee for Life
- Free Wireless Phone
- Free Weekends for 3 Months

Through December 10, 1997, GTE Wireless is offering

- 300 minutes of wireless service for $35.00

- No long-term contract
- 6-second billing
- Free Caller-ID

Through December 31, 1997, NEXTEL is offering contracts for

- Unlimited calls
- Unlimited minutes at no extra charge
- Text/numeric paging
- No roaming charges

Q. **What conclusions should be drawn from the supplemental testimony you presented regarding the competitive environment in the CBT service territory?**

A. Since the filing of the Commitment 2000 plan, the environment for local exchange service has become increasingly competitive:

- Alternative competing telecommunications networks are continuing to be built and expanded.
- At least one competitive 5ESS telecommunications switch is operational and providing service to customers in the CBT territory.

- NECs are targeting CBT's high value business customers and eroding the support these business customers provide to the below-cost retail rates of the residential customers.
- Facility based local providers have access to fiber-based facilities throughout much of CBT's service area.
- Time Warner Communications has filed a tariff with the PUCO to sell services in the CBT service area that directly compete with CBT telecommunication products and services.
- By their own admission, NECs are actively soliciting telecommunications business from CBT customers.
- The "Fresh Look" window is active in the Cincinnati exchange which includes the majority of CBT's access lines
- Customers have an ever-increasing number of choices.

In addition, CBT has directly supported the development of competition in the CBT service area as evidenced by:

- CBT is currently exchanging local exchange traffic with NECs.
- CBT is providing collocation on CBT premises for the exchange of traffic and/or access to unbundled network elements.
- CBT has an operational LEC Center processing orders from NECs.

STAFF'S RECOMMENDATIONS WOULD RESULT IN SIGNIFICANT COMPETITIVE DISADVANTAGE FOR CBT AS A RETAIL PROVIDER

Q. Staff has recommended five mutually exclusive service baskets that interact with the four-cell service classification structure as the framework for applying pricing flexibility for CBT's services. Why does CBT disagree with this approach?

A. The Core/Non Core distinction Staff recommends for Cell 1 services, coupled with the further separation of Residential and Non-residential services in the service baskets, restricts CBT's flexibility on a number of levels. It results in an unnecessary degree of complexity beyond what could be achieved through CBT's proposals, clearly not mutually exclusive as the Staff had indicated. For example, CBT does not track certain services on a residence/nonresidence basis, and selected Carrier Access Services are clearly also nonresidence services. CBT believes that having separate baskets for carrier access services, UNEs and services to Resellers are unnecessary given that the pricing rules for those services are determined by the FCC's and the Commission's other rules. The Staff's recommended plan imposes needless administrative complexity with little or no benefit to consumers.

Q. Please explain how the Staff's Price Cap proposal fails to provide CBT with the marketing flexibility needed for a competitive environment.

A. From a retail marketing perspective, the Staff's recommendations leave CBT with only minimal pricing flexibility. Such a policy approach is undesirable if competition is to bring the benefits of competition to consumers. While CBT objects to several of the individual components of the price cap proposal outlined by Staff, it is the cumulative effect of its provisions that makes the plan unacceptable to CBT. As is the case with many other components of Staff's Report, the price cap plan is presented as the solution to the Company's need for pricing flexibility, but the SRI offers no supporting rationale or work papers to support the Staff's proposal. Staff's recommendation restricts pricing flexibility to an even greater degree than Ameritech's alternative regulation plan, and at a time when competition is present. CBT believes that the competitive market is preferable to increased regulation, and that consumers benefit where companies are free to provide services without or with only minimum constraints. Consumers also benefit where several competitors, including the incumbent LEC are able to vigorously compete for customers.

Q. Can you be more specific?

A. An analysis comparing the Marketing and Pricing flexibility afforded to NECs with that recommended for CBT by Staff is shown in the Attachment labeled

PWR-4. The table outlines the major components of flexibility afforded Time Warner, MCI and other NECs under the 95-845 guidelines and the Staff 's recommended alternative regulation provisions for CBT. Further, the table indicates where competitive advantage is provided to CBT's competitor by virtue of these disparate rules being applied.

Q. **What capabilities does CBT need to be a viable competitor within the Cincinnati market?**

A. As would any competitor, CBT requires 1) the ability to compete effectively for and retain complex business customers; 2) the capability to introduce and refine solutions to meet our customers' needs; and 3) the ability to capitalize on CBT's brand equity with its customers through marketing programs that deliver value to customers.

Q. **How would you characterize CBT's ability to compete on these three key dimensions based on the Staff's recommendations?**

A. CBT is disadvantaged relative to its competitors in each of these dimensions.

Q. **Are other Staff recommendations relative to marketing flexibility a source of competitive disadvantage for CBT?**

A. Yes. Given the increased level of competition previously discussed, Staff's recommendations will further disadvantage CBT relative to Time Warner, MCI and other NECs as it tries to: 1) develop new solutions to meet customer needs; 2) modify existing services or change the terms and conditions under which a service is offered; 3) modify the prices for existing services to better recover costs; and 4) gain additional pricing flexibility as local competition intensifies.

Q. Staff also recommended a series of tariff filing procedures and associated procedural requirements for CBT's retail services. Why does CBT believe that Staff erred in this regard?

A. CBT objects to the Staff's proposed tariff filing procedures as being too restrictive relative to NECs. The Staff's concern that CBT's proposal does not allow for proper public notice or review is cared for by the Company's service classification proposal that would preserve the Commission's right to suspend a filing if warranted. They would also allow for intervention by interested parties if so desired, but would shorten the time frames in which CBT could deliver solutions to its customers.

Q. Why do the tariffing procedures Staff outlined in its report represent a competitive disadvantage to CBT?

A. Time to market for new solutions is increased, advance notification is given to competitors and productivity is reduced. While NECs have some tariffing requirements, they are orders of magnitude less complex than Staff has suggested for CBT.

Q. Why does CBT object to the Staff's recommendations for reclassification of products and services?

A. Staff's recommended cell reclassification procedures fail to recognize the evolving competitive environment. As new entrants enter the market, they have the ability to generate competitive substitutes for CBT's products and services virtually overnight. With that level of marketing and operational clout, the Staff's 30-day reclassification requirement coupled with the onerous requirement to assess market share significantly handicaps CBT.

Q. Are the Staff's recommended procedures for new services filings consistent with the emerging competitive environment?

A. New services should be subject to an automatic approval process and not a 30-day public process. This is especially true when the service offers new or additional service capabilities to customers. Requiring a 30-day process not only slows the introduction of new services, but also allows competitors to preempt CBT's offering. Consumers are benefited by the rapid introduction of new services and new entrants are benefited by having the opportunity to resell the service more quickly. Further, CBT objects to the Staff recommendation that "a new service may not contain an element comprising an existing service." Such a policy, if broadly interpreted, serves to discourage the introduction of new services and denies consumers the benefits that competition is intended to create. Such a limitation too severely limits CBT's ability to offer services with increased capabilities over the basic service.

The Staff's proposed requirement to provide plans for customer notification and education impose an unnecessary administrative burden on CBT and limits CBT's discretion for provisioning new services. The Commission's role with regard to new services should move from prior approval of services to after the fact enforcement of violation of Commission rules.

Q. Does the Company have further objections in the area of new services rules?

A. Yes. CBT objects to the association of end user retail services requirements with the Company's carrier-to-carrier services obligations as well as the application of its cell pricing rules to the filing requirements and price floor establishment for the new service. The establishment of a retail price floor should be based on the Company's proposed LRSIC costs. However, the recovery of joint and common costs for retail services should be at the Company's discretion, and not require a mandated application of the Commission approved TELRIC methodology. Also, the Staff's recommendation that CBT maintain a Carrier-to-Carrier tariff, ignores the fact that the company's wholesale obligations will be met via tariff filings that include appropriately discounted rates and an opportunity for review by the Commission and the public. The requirement that the retail tariff filing also carry this information constitutes duplicative regulation.

Finally, it should be obvious to Staff that it would be unrealistic to pre-determine the regulated versus non regulated status of a yet to be developed service by requiring that such revenues always be treated as regulated revenues, above the line, as Staff suggests.

Q. **Why are the Staff's recommendations regarding promotional filings unacceptable to CBT?**

A. CBT believes promotional flexibility is key to its ability to compete. The Staff's recommendation would tie promotional activity to enabling language in CBT's tariffs. CBT objects to the Staff's conclusion that only selected services should receive promotional treatment and the requirement that promotional tariffs contain historical data regarding promotional activity for that product or service. As stated in my direct testimony, CBT believes all services should be available for promotion. Denying CBT the ability to promote services denies customers the very benefits of competition that the Commission is attempting to foster. The requirement to provide historical data imposes an unnecessary regulatory burden on CBT with little or no additional benefit to Staff and consumers. In addition, Staff's recommendations do not support timely approval or discontinuation of promotional offerings.

Q. What guarantees does CBT have that it will be able to achieve any incremental pricing or marketing flexibility over the term of its new plan?

A. None, and I do not expect such a guarantee. However, I do expect that it is incumbent on the Commission to permit CBT to be an effective competitor in its market and the formulation of the Company's new alternative regulation plan will be a large determining factor in this regard.

SERVICE CLASSIFICATIONS AND THE ESTABLISHMENT OF SERVICE BASKETS

Q. What is CBT's view of the current classification of all telecommunication services into cells based on the level of competition a particular service or product experiences?

A. As CBT stated in the original filing of the Commitment 2000 plan, CBT believes the slotting of services into one of four cells based on the competition they experience is no longer valid, is very restrictive and is not at parity with the requirements of NECs.

Q. What specific market actions does CBT believe are precluded by the four cell classification structure?

A. Under the four-cell structure, CBT would be required to file more frequently to reclassify products and services into different cells than under the simplified two category approach. As Dr. Emmerson points out in his supplemental testimony, four cells requires too much incremental movement to gain regulatory freedoms. In addition, under the existing cell structure, the packaging of existing features into bundled service offering is not facilitated.

Q. Do the standards for judging the level of competition for a service equate to the actual level of competition CBT faces?

A. No. The direction provided in the 92-1149 rules outlines the showing expected when CBT wishes to reclassify a service to a different cell but that proceeding never contemplated the level of competition that exists today. However, Staff's recommendations remain firmly planted in these rules, without evidence that any meaningful waivers of the rules would be granted to CBT, as the Commission has previously suggested it was willing to consider. Because it is unclear what weight this evidence will be given when evaluated, the outcome is subject to a high degree of subjectivity. A showing of competitive and/or functionally equivalent alternatives, readily available to CBT customers, should be sufficient to allow highly regulated products and services to benefit from less restrictive cells.

Q. If required to remain under the existing 4 cell structure, would CBT propose less restrictive cell classification for some of its services?

A. Yes. As part of the compliance filing made by CBT at the request of the Staff, CBT proposed that the services listed in Attachment PWR-5 receive a new cell classification based on the availability of competitive or functionally equivalent products or services in the market. CBT maintains that under the current cell classification structure, the evidence of functionally equivalent or substitutable services justifies the new classification indicated.

Q. Are there sufficient alternatives for those services to warrant less restrictive cell classification?

A. Yes. CBT provided evidence of competitive or functionally equivalent alternatives for all the services it proposed to reclassify if the Commission rejected CBT's proposed Primary and Market Based service classification. Further, CBT provided significant evidence of the change in the competitive environment in the three-plus years since the current plan and cell classification structure was implemented. Further, the equivalent CBT services to those approved by the Commission for Time Warner (outlined in Attachment PWR-3) *should also have been granted Market Based classification unless CBT* specifically sought to place them in the Primary group.

Q. What did CBT provide as evidence of competitive alternatives or substitutable services that would justify the request for less restrictive cell placement?

A. In Exhibit 3 of the original plan filed February 5, 1997, CBT provided 176 pages of information describing the competitive environment present at that time including 151 pages of service-by-service detail with competitive alternatives and functionally equivalent services identified where appropriate.

Q. How was CBT's request for reclassification of services based on the evidence presented received by the Staff in their report?

A. In its filing, CBT submitted extensive evidence of the competitive environment. The Staff acknowledged that CBT had proposed to place some services in new/different cells (see Attachment PWR-5 for this list), but the Staff recommended that all services continue to be placed in the cell in which they currently reside. As in other areas, the Staff did not explain why it made this arbitrary recommendation. In addition, the Staff failed to described the method to be used to evaluate CBT's evidence of competition or functionally equivalent services. The Staff has not defined substantial competition and has essentially suggested that Emerging Competitive (Cell 2) and Discretionary services (Cell 3) merit the same level of pricing flexibility. CBT objects to the Staff's proposal because it imposes pricing restrictions that are more stringent than are in place today. As Dr. Emmerson discusses in his testimony, pricing restrictions are inappropriate for discretionary services in a competitive environment.

Q. What conclusions can be drawn regarding the Staff's view of the growth in competitive alternatives or functionally equivalent services based on their recommendation?

A. First, given the fact that Staff recommended no change in the service classifications determined in CBT's last alternative regulation case, CBT can conclude the Staff does not believe the competitive environment has changed nor will it undergo rapid change in the CBT service territory in the next three (3) years. CBT has provided substantial evidence throughout this process that this is not the case. Second, the Staff has focused on market share as a single measure of a market's competitiveness in its determination of whether a service is worthy of reclassification now, or in the future.

Q. Why did the Staff err in recommending the proposed hunting feature be classified as a Cell 1 service?

A. The nature of a separate feature available to customers is clearly to highlight the fact that customers have a choice in adding this functionality to their basic service. Hunting is clearly discretionary, thus is no different than features for Centrex or Trunk or Prime Advantage, already acknowledged as discretionary or fully competitive under CBT's existing alternative regulation plan. A Market-Based classification, as CBT originally proposed would have been most appropriate.

MARKET SHARE LOSS AS A METHOD OF MEASURING COMPETITION

Q. Was there any indication in the SRI of a method by which the availability of alternatives or substitute services would translate into any additional marketing freedom?

A. Yes. The Staff Report suggests that marketing freedoms may be requested by CBT when it attains a 20% loss of market share. However, the Staff Report provides no detail as to the method to prove any relevant market share data. The only indication or direction is the requirement that some loss of market share occur in the residential market and the need to differentiate facility-based losses from losses due to resale. Mr. Monson and Dr. Emmerson, as well as Mr. Marshall, also discuss the myriad of problems associated with this view.

Q. Why is market share loss an inappropriate measure of market competitiveness?

A. In addition to the difficulty in measuring market share, a focus on market share loss as a singular measure of market competitiveness places an inappropriate and unnecessarily restrictive reliance on a single indicator of competition. It is, in fact, a construct designed to favor the new entrants at the expense of the incumbent. Such a preference for new entrants may be necessary for fledgling companies, but is not appropriate for global competitors such as MCI, Time Warner and AT&T.

Q. Are there any additional reasons market share loss is an inappropriate means of measuring a market's competitiveness?

A. Yes. Market share calculations require that the market first be defined. The Staff has provided no guidance in this area, nor has it suggested an appropriate market measure or a method for evaluating whatever measure CBT would produce. Because of the lack of specificity, CBT's burden to demonstrate market share loss is not reasonably achievable. CBT competitors would argue that CBT didn't define the "market" properly, didn't measure at a sufficiently detailed or product specific level, etc. and in effect delay the process of CBT gaining deserved marketing freedoms. Additionally, market share does not provide appropriate weight to intangibles that greatly effect a customer's buying decision. Customers choose their providers for a number of reasons, including service quality, price and reputation. Judging the need for market flexibility on market share alone, in effect, penalizes providers delivering exceptional service to customers. CBT urges the Commission to reject the Staff's recommendations that rely solely or predominantly on market share as the basis for allowing pricing flexibility.

Q. How will the use of market share loss as a threshold for moving toward equal regulatory treatment of all players effect the market as a whole?

A. In a market where providers of the same services and products are forced to abide by different and disparate rules, the most restricted of the players will not have the opportunity to compete for the most valuable customers. The most restricted party will be left to serve those customers not deemed desirable by those who are less restricted. In the providing of local exchange service in CBT's service area, CBT will be unable to successfully compete for business customers targeted by NECs if the Staff's recommendations on pricing and marketing of services are adopted. CBT will therefore be left to fulfill its role as provider of last resort to a residential market and to less profitable business customers with more limited choices. Residence service will remain priced substantially below cost from which the Staff has recommended no upward pricing flexibility until significant losses in an undefined market occur. If the Staff's recommendation on market share loss is implemented, the effect will be two markets for the same products and services: one market for the highly valued customers and another for the less desired customers. Further, the siphoning off of a significant group of business customers places great economic burdens on CBT and represents a great risk for the residential customers to carry the subsidy load previously borne by these same non-residential customers.

Q. What are the financial implications for the use of market share loss as a measure of market competitiveness?

A. As is clearly outlined by Mr. Marshall in his supplemental testimony, there are financial implications for CBT and for customers if marketing parity is tied to market share loss. First for CBT, because of restrictive rules that limit CBT's ability to respond to competitive service offerings, CBT risks losing customers that provide significant subsidies to the non-business market, or lowering rates and losing the contribution in that manner. Because the Staff recommends such a high threshold of loss before CBT can even request pricing flexibility, these losses threaten the historic balance of business rates and the necessary residential subsidy. This situation increases the pressure on the remaining customers to support those residential customers that are served at below cost rates absent rebalancing. For business customers, the Staff's recommendation allows the competitive providers of service to determine who to serve and when, in effect creating a two class telecommunications society: those with options -- high end, high margin customers, and those with fewer options -- small business customers and those viewed as less desirable by the competitors.

Q. If the Staff's recommendation that market share loss as the measure of a market's competitiveness is accepted and implemented, what challenges will CBT face in meeting this showing?

A. The recommendation of market share loss as the measure of a market's competitiveness may allow the Staff a quantitative means of judging whether a market is "competitive." This approach is ineffective and unfairly restricts CBT to marketing standards that our competitors do not have. This method also places substantial burdens on CBT to provide data that will not accomplish the Staff's goal of objectivity. For example:

- CBT does not and will not have access to the competitor information that it would need to correctly identify CBT's portion of the market.
- The Staff has not defined the "market" in which CBT should lose share.
- The Staff has traditionally viewed, and apparently continues to view, regulation on a product and service level basis when increasingly customer solutions can be provided by a number of products and/or services, some not provided by CBT.
- By its decision not to grant CBT's request that certain services be reclassified to less restrictive categories despite the evidence provided in the

Commitment 2000 Plan filing, the Staff indicates it does not accept "functionally equivalent" products or services as competitive or substitutable alternatives to CBT services. This contradicts the intent of the Commission's directive in the Alternative Regulation Rules governing reclassification of services.

- There will be a substantial time-lag built into any process that requires CBT alone to identify a market, quantify it, measure it – without access to all necessary data – and report the information to the Staff. During this time, CBT remains at a significant disadvantage in the market relative to the competitive providers of alternative solutions.
- The activity of producing the data and presenting it to the Staff for evaluation is not required of competitive providers of services in the CBT service area.

Q. Are there alternative means of measuring a market's competitiveness?

A. Yes. There are a number of other means that could be used in such an evaluation. Some examples include:

- The number of the NECs in the market; either approved by the Commission to provide service, or declared operational as described in the "Fresh Look" Entry, Case No. 95-845-TP-COI.
- The number of Interconnection Agreements signed between CBT and competitors, or approved by the Commission.

- Tariffs filed by NECs and/or approved by the Commission for services or features that will compete with or offer substitutes for CBT features or services.
- The extent to which competitive networks are operational, as defined by providing services via the network to end-users.
- The purchase of end-to-end services from CBT at wholesale rates by NECs, and their resale to end user customers.
- The purchase by NECs of unbundled CBT network elements and the providing of service to end users utilizing these elements.
- The weight of NEC presence in the marketplace as measured by size of sales force or total employees, or advertising placed with the intention of raising awareness for the NEC and/or eliciting inquiries.

Q. In what manner might the Commission utilize the above alternative means of gauging the degree to which competitive alternatives exist in the market?

A. The alternative measures outlined above provide a continuum measuring the degree to which customers have alternative choices. As more NECs enter the market, customers should have more choices for service, and therefore the asymmetrical rules that treat CBT different in the areas of pricing flexibility, marketing flexibility and packaging flexibility are no longer necessary. These measures provide a view of the market that will capture facilities based, resale and

UNE based competition, and reflect the removal of barriers to entry and the increasing number of choices available to customers.

Q. In what ways can the Commission assist in the development of competitive choices for the broadest possible group of customers?

A. One way the Commission may assist in the development of competitive options is to identify a time table, based on the points above, that moves the market towards a level playing field as the various events occur. As these events occur, any asymmetrical regulations would be removed in kind until all providers of local exchange service, NECs and ILECs alike, operate under the same rules. Additionally, there should be a "Sunset Date" at which time any remaining differences would be eliminated. This final item will compel NECs to serve the broadest possible customer base at the fastest pace.

Q. Are there any other initiatives the Commission could implement to assist the development of a competitive market for all customers?

A. Yes. The Commission should articulate a clear path for ILECs and NECs to the deregulation of products and services. Safeguards may be appropriate to sustain certain social policy goals, but the goal for which all providers should strive is an efficient market unencumbered by this artificial regulation. This truly competitive market will consist of multiple providers for each service, with the consumer deciding which provider and solution best fits their needs at a specific price.

Q. Should the removal of asymmetrical regulation occur only in those portions of CBT's service area where competition exists?

A. No. CBT negotiates interconnection agreements -- including terms and conditions for unbundled network elements (UNEs) and resale of CBT services -- for its entire Ohio service area. NECs are limited only by the choices they make to serve certain customer groups or areas. The decisions made by CBT in the areas of pricing, packaging, etc. will dictate customer acceptance, as will the same decisions made by the NECs, and determine their relative success. Regulation should not be an impediment to market forces when, as discussed above, the barriers to enter the market have been effectively removed.

Q. Are there problems with applying different regulations to different areas of a CBT's service area?

A. Yes. Particularly for a small, contiguous service area like CBT's, the application of different regulations based on location is counter productive because:

- Print and broadcast media cover the entire service area. Thus, there is no way to eliminate non-served/non-competitive areas from CBT or NEC advertising;
- NECs are dictating the pace of competitive choices for customers;

- This approach creates separate classes of customers for CBT who purchase the same services based on where NECs provide service;
- Product availability for NECs is limited only by their choices of which services to provide themselves, or purchase as end-to-end services or UNEs from CBT.

Q. **Does the Staff's assessment of competition in CBT's market as reflected in the SRI accurately reflect the proper application of the Commission's alternative regulation rules for companies such as CBT?**

A. No. I conclude there are numerous flaws in the Staff's view of competition including 1) the failure to recognize resale as a viable competitive alternative that provides customers with choices; 2) numerous references to CBT as a monopoly provider when multiple providers and functionally equivalent services clearly are operational in our market and performing total service bypass of CBT's network; 3) the failure to recognize any changes in the competitive market over the period 1994-1997; 4) the singular reliance of the Staff on market share as a proper measure of the competitiveness of a market; 5) the failure to indicate the process by which CBT could be assured that its burden of proof would be fairly viewed, and lack of explicit process for reaching parity with NECs, as described in the Local Service Guidelines.

THE RATE REBALANCING IMPERATIVE & RETAIL PRICING CHANGES

Q. Please summarize CBT's objections to the Staff Report regarding rate rebalancing.

A. CBT has three primary objections to the Staff's rate rebalancing position. First, the Staff has not recognized the need to increase residential rates towards costs as non-residence rates are reduced. Staff's position ignores the historical social pricing of residence access lines as well as the relationship between CBT's rebalancing proposal and its Section 251 suspension/modification requests. Moreover, the Staff's residence and non-residence service baskets effectively preclude future rebalancing. Second, Staff has not quantified the uniform rate level that it proposes for basic exchange services, and third, the Staff has not provided a recommended revenue distribution. Staff does not appear to have viewed CBT's rebalancing plan in its entirety; rather, Staff supported or opposed certain aspects of CBT's proposed rate and service changes without addressing the overall revenue change, the timing of future changes or the relationship of prices across services.

Q. How is CBT's rebalancing plan related to its Section 251 suspension/modification requests?

A. CBT's retail rebalancing proposal and contribution margin surcharge for unbundled business loops are directly related in that retail rebalancing leads directly to a decrease in the surcharge. Today, CBT's non-residence access lines provide contribution that allows residence access line rates to be priced below their LRSICs. However, TELRIC pricing for wholesale unbundled loops does not include this contribution and thus creates an artificial regulatory-driven arbitrage opportunity relative to the retail social pricing. CBT's suspension/modification request would provide comparable pricing of non-residence retail and wholesale services, absent rebalancing. Once CBT rebalances it rates, the contribution margin surcharge can be eliminated.

Similarly, CBT's suspension/modification request regarding combinations would no longer be needed once CBT rebalances rates. Combining TELRIC priced UNEs offers another arbitrage opportunity that results from the social pricing of retail access lines. Absent rebalancing, the total price of the UNEs (which do not include the contribution towards social pricing) is less than the resale rate (using the avoided cost discount) for non-residence access lines.

Q. Is Staff's position on rebalancing consistent with its position on the Section 251 suspension/modification requests?

A. No. Given Staff's general opposition to the suspension/modification requests, CBT finds Staff's logic that rate rebalancing is not appropriate because CBT filed for these waivers to be particularly perplexing. CBT does not understand how Staff can use CBT having "sought certain protections from competition" (SRI at page 42) as a justification to oppose rebalancing when the Staff also opposes those "protections." Staff's denial of rebalancing perpetuates the need for a waiver rather than alleviating it as CBT's rebalancing plan would do.

Q. How does Staff's opposition to almost all of CBT's suspension/modification requests affect CBT's need to rebalance rates?

A. Denial of CBT's suspension/modification requests will increase the need for CBT to rebalance its retail rates. Without these waivers, competitors will be able to use CBT's own facilities to offer non-residence services priced significantly below CBT's retail rates. In this case, CBT can either lower its non-residence rates to help retain and/or "win back" customers, or maintain its rates and lose customers. In either case, CBT will lose revenue that currently contributes to residential cost recovery, and this will actually increase the pressure to rebalance residential access line rates.

Q. Will CBT face pressure to reduce non-residence rates from competitors regardless of the suspension/modification requests?

A. Yes. CBT expects competitors will offer service below CBT's rates regardless of what those rates may be. The difference is that without the suspension/modification requests and/or rebalancing, the revenue streams supporting universal service are not sustainable in the long run. If CBT is not allowed to rebalance its access line rates towards costs or CBT's suspension/modification requests are denied, the contributions towards universal service from non-residence lines simply become profits to competitors if they provide service to the end user.

Q. Does CBT concur with the Staff's review of the requested resale modifications?

A. No. As I described in my February 19, 1997 testimony, CBT believes waivers regarding the time frame for promotions and resale discounts for services already discounted, e.g. Lifeline, and resale of grandfathered services, are necessary for CBT to be a viable competitor. Additionally, CBT objects to the conclusion that CBT should offer for resale any service which CBT offers to end users on a retail basis. The Telecom Act and the FCC rules clearly state that only Telecommunications services are included in the resale requirement and not all of CBT's retail services fall into this category. CBT also objects to the implication that all retail services must be tariffed in order to apply the resale discount. This would require CBT to re-tariff existing services and imparts more stringent regulation on CBT Cell 4 services than exists today. Clearly, a service does not have to be tariffed to apply a discount to the current rate. Finally, CBT does not agree that a waiver for resale of contracts in itself is sufficient to prevent undue harm.

SELECTED PRICING PROPOSALS

Q. What specific elements of CBT's rate structure must change to be sustainable in a fully competitive market?

A. Non-residence access line rates cannot continue to subsidize residence access line rates because competition will not permit artificially high social pricing levels. In other words, non-residence basic exchange rates must decrease. For residence basic exchange service, this means rates must either be rebalanced towards costs or a competitively neutral universal service funding mechanism must be established to permit below cost pricing.

Q. Does the Staff's price cap proposal provide sufficient flexibility for CBT to make these changes?

A. No. Staff's proposal would provide no opportunity to rebalance rates between residence and non-residence services and would not allow residence access line rates to cover costs. By establishing separate baskets for residence and non-residence it is impossible to shift contribution in the non-residence basket to the residence basket. Staff's proposal to preclude subsidies between customer classes on a going forward basis also precludes removing existing subsidies. (As such, CBT does not understand how Staff's assertion that its proposal ensures no subsidies across customer classes can be true without first removing the current subsidies.) Additionally, the restrictions the Staff proposes for Cell 1 Core residence services precludes moving residence access line rates to LRSIC during the Staff's recommended three year term of the plan. The percentage increases proposed by Staff are insufficient to raise the current residence access line rates to cost even if CBT could immediately begin rebalancing rates under the Staff's formula.

Q. How does this lack of price flexibility affect CBT's retail marketing position?

A. By denying rebalancing, Staff is providing CBT's competitors with the opportunity to exploit non-residence-pricing margins that were established for social pricing even if the competitor is less efficient and has higher costs than CBT. With Staff's price cap proposal, CBT has essentially two options for non-residence access line competition. The first is to lower prices, forego revenue and potentially retain sufficient number of customers such that additional pricing flexibility is not obtained. The second option is to keep rates at higher levels, lose customers and revenue in as-yet-undefined markets, and wait until losses are sufficient to gain marketing/pricing flexibility. In both cases, customers lose. In the first case, CBT never obtains the same freedoms as its competitors, such as additional promotions, thus denying customers the benefits of those freedoms. In the latter case, customers lose the benefits of CBT initially developing new service options, price plans, packages, etc.

Q. **Staff states on page 60 that implementation of CBT's proposed rate bands is a good starting point for transitioning to a competitive environment. What is CBT's position regarding the Staff's proposed starting point for basic exchange service rates?**

A. CBT agrees that the new band structure is appropriate for a competitive environment. However, the Staff never specifically states what it believes the initial rates should be and gives no indication of what it believes the revenue associated with these services should be. Staff simply states its opinion that "a single average rate for all residence basic exchange services and a separate average rate for business basic exchange services is appropriate." (page 42) CBT objects to this proposal in that Staff never addresses how to determine these averages and objects to the extent that Staff's proposal does not provide some degree of rate rebalancing and would be a step back based on today's existing rate levels.

Q. Does CBT agree with Staff's recommendation to grandfather the access line rates for certain customers?

A. No. First, CBT's proposal is intended to move rates toward costs. Second, the Staff does not define "substantial" increase, so it is unclear which rates Staff would grandfather. Regardless of the meaning of "substantial," grandfathering a rate, essentially because it is too low, can preclude CBT from being able to recover the cost for that service. The customers that Staff references as receiving $ 10.00 increases are CBT's LAS customers in Harrison, Indiana. Approximately $ 7.00 of this increase is a result of converting to EAS. Certainly, Staff cannot be proposing that these customers receive EAS but continue to pay the lower LAS rates.

Q. Approximately, what is the initial rate increase due to rebalancing for CBT's residence customers?

A. For the vast majority of customers, the initial increase ranges from $2.00 to $4.00 depending on whether or not the customer has Touch-Tone.

Q. Does Staff address the revenue associated with CBT's other rate and service changes?

A. No. Staff generally opposes any changes that are related to CBT's basic exchange service rate rebalancing, for example decreasing Direct Inward Dialing (DID) rates for Prime and Trunk Advantage. However, Staff never addresses the revenue associated with any individual change. Furthermore, CBT's objective was to have a revenue neutral filing that included changes to move towards a competitive environment. Yet, Staff does not address the total revenue change or revenue distribution associated with their recommendations for vertical and other services.

Q. How do CBT's proposed changes to vertical and other services support moving to a fully competitive environment?

A. CBT's proposals to rebalance rates, to simplify pricing and to provide transition paths between services support a fully competitive environment. These changes would all benefit customers by offering consistency and simplification of CBT's rates and service structures.

Q. Please summarize CBT's objections for vertical and other services that are related to rate rebalancing.

A. CBT's proposals regarding Touch Tone, non-recurring charges related to access line changes, Custom Calling/Custom Calling Plus and measured service restructuring are all related to CBT's overall rebalancing plan. CBT objects to Staff's opposition to all of these changes in that Staff never addresses the revenue affect of its recommendations. Regarding these specific services, CBT also objects to Staff's agreement to eliminate the separate charge for Touch Tone to the extent that Staff does not address inclusion of touch-tone in its recommended average basic exchange rates. For the non-recurring access line charges, CBT objects to Staff's position that the non-recurring residential access line and touch-tone charges should not be combined. Staff's position ignores costs and will move CBT further from cost recovery than it is today. CBT objects to Staff's proposal that CBT maintain its current non-residence measured rate services using existing rates as well as add services without allowances that are priced $4.00 less than the existing rates because Staff ignores the costs of these services relative to their rates.

Q. Is it your position that CBT's measured service rate structure needs to change to better serve the new competitive environment?

A. Yes. CBT's rebalancing plan included rate increases for non-residence measured rate basic exchange service so that certain rates could be raised to their cost. Staff's $4.00 discount would move certain rates further below cost. Additionally, CBT's measured service changes were intended to simplify the rate structure for its customers and to provide a consistent transition between services by establishing a uniform price difference between flat and measured rate service for a particular customer. Staff's position complicates rather than simplifies the rate structure by adding, or in the case of residence, maintaining an option that has little impact on customers' total charges.

Q Please summarize CBT's position regarding other changes in CBT's plan that provide simplified pricing for vertical and other services.

A. CBT proposed to simplify its pricing for access line related non-recurring charges and ISDN features by establishing uniform rates. Staff however objected to all of these changes and recommended including them within CBT's price cap plan. As discussed in D. I. Marshall's testimony, CBT objects to the Staff's price cap plan in general. Specific to these services, the limits on residence core service rate increases could preclude CBT from increasing the charge to change non-complex billing arrangements to a higher uniform rate over the Staff's proposed three year term of the plan. For ISDN, the Staff ignores that the change in the non-recurring charge for the basic rate access line is tied to changing the minimum service period. CBT cannot support reducing the minimum period without increasing the non-recurring charge. Finally, implementing these changes through price caps will delay customers' benefits from simplified pricing.

Q. Please summarize CBT's objections for vertical and other services that are related to providing transition paths between services.

A. As I mentioned before, CBT objects to Staff's opposition to CBT's proposed measured service restructuring which would provide a consistent transition between flat and measured service. CBT's DID rate reductions, both for analog service and Prime/Trunk Advantage, also position CBT's services relative to each other. These changes are driven in part by CBT's Centrex restructuring which the Staff supported. PBX services and Centrex are clearly alternatives for each other, so it appears that the Staff again only considered part of the equation in developing its recommendation.

CBT proposed to eliminate the DA exemption for hotels and hospitals, and this is consistent with how CBT's other non-residence customers pay for Directory Assistance. Staff opposed this change stating that it believed this change should be made under price caps. CBT does not understand how price caps would apply in a case where terms and conditions would change. Applying a percentage increase where there is no rate is meaningless. Also, Staff's opposition seems inconsistent with its agreement that hotel customers should be allowed to purchase flat rate service in the future. With respect to flat rate, the Staff sees no reason why hotels should be treated differently than other customers, but for whatever reason, this same belief does not carry over to DA for these customers.

Q. What other objections does CBT have related to the Staff's rates and services recommendations?

A. CBT objects to maintaining the current rates for existing Telephone Assistance (TSA) customers because Staff misunderstood the reason for these decreases and did not address the rates for new TSA customers. Staff states that certain TSA rates are proposed to decrease because subtracting the subscriber line charge (SLC) from the proposed rates results in a rate decrease. This is not true. In every case, subtracting the SLC from the proposed rate results in a higher rate than today. The reason a few TSA customers are proposed to have rate decreases under CBT's proposal is the new band structure. Without these decreases, different rates may apply to different customers within the same band.

For pay telephone service, CBT objects to Staff's recommendation that pay phone rates be capped at the business one party rate. This proposal is inconsistent with CBT's current rate structure and the different usage characteristics of pay phones. CBT's pay phone access line rates are for message rate service and have two allowance options depending on local usage. CBT does not offer message rate service to its other customers.

Finally, CBT objects to Staff's position that conduit occupancy be tariffed because conduit is included in the TELRIC portion of this proceeding. TELRIC pricing and the Individual Case Basis (ICB) pricing that CBT proposed are not incompatible. Clearly ICB rates can be developed using TELRIC. This is the most appropriate solution based on CBT's projections of limited and highly diverse demand for conduit occupancy rates from NECs or other customers.

Q. Could CBT make the changes within the Staff's price cap proposal?

A In many cases, no. CBT does not believe regulation changes, such as eliminating Directory Assistance exemptions, can be accomplished through a price cap filing. Also, the caps on increases for residential core services would preclude some changes, such as moving all of the residential access line related non-recurring charges to CBT's proposed uniform level, under the Staff's three year proposed term of the plan. In the remaining cases, CBT is unsure how, or if, future implementation would work because the Staff's price cap proposal is vague regarding the timing of changes.

Q. Was the Staff silent on any of CBT's proposals?

A. Yes. CBT has no indication that the Staff considered the Company's proposals at all or formed an opinion regarding the viability of CBT's proposals in the case for market and technical trial parameters. As such, CBT assumes that the Staff does not object to these aspects of CBT's plan.

Q. From a retail marketing perspective, what conclusions do you draw from the Staff's proposals as set forth in the SRI?

A. I conclude that the Staff's recommendations in this proceeding harm CBT' s ability to compete effectively relative to its competitors in the marketplace and execute its marketing initiatives. The Staff's proposals seriously undermine the

Company's strategic objective to be the premier provider of total communications solutions to its customers in the marketplace by limiting CBT's marketing and pricing flexibility relative to its competitors. Finally, the SRI would preclude CBT from adjusting its retail pricing structure as necessary to remain a high quality provider of solutions to its customers during the next three years.

Q. Does this conclude your supplemental testimony?

A. Yes it does.

Supplemental Testimony of Pamela W. Rayome
Case No. 96-899-TP-ALT

NECs Who Have Filed To Provide Service in CBT Service Area

All except Ameritech have been certified to provide competitive local service.

Time Warner Communications
AT&T
Ameritech Comm. of Ohio, Inc.
Sprint Communications Co. L.P.
Cable & Wireless, Inc.
Winstar Wireless of Ohio, Inc.
MFS Intelenet
ICG Telecom Group, Inc.
Local Fone Service, Inc.
Digicom, Inc.
Long Distance Direct, Inc. LDDI
Intermedia Communications of Ohio, Inc. dba Intermedia Communications
CRG International, Inc.
MCI Metro
TCG Ohio
Excel Telecommunications, Inc.
Sterling International Funding, Inc.
U.S. Telco, Inc.
BNI Telecommunications, Inc
BellSouth, BSE

Cincinnati Bell
People you know, you can rely on.

December 8, 1997

201 E. Fourth St., 102-1020
P.O. Box 2301
Cincinnati, Ohio 45201-2301

Dear Cincinnati Bell Customer:

In an effort to foster a competitive local exchange market in Greater Cincinnati, the Public Utilities Commission of Ohio (PUCO) has asked all incumbent local telecommunications service providers like Cincinnati Bell to give customers an opportunity to take a "FRESH LOOK" at their long-term local service contracts.

If you choose to purchase services from a telecommunications carrier new to this market, Fresh Look provides customers a one-time, 180-day opportunity to opt out of long-term local service contracts (e.g. Cincinnati Bell's CENTREX, Trunk Advantage® and PRIME Advantage™ services). A termination liability payment may apply according to the guidelines established by the PUCO. Furthermore, you are only eligible for Fresh Look if your company's contract has two or more years remaining when the PUCO verifies that the first commercial call has been completed by a new carrier in your exchange area. (A telephone exchange is determined by the first three digits in your local phone number, known as an NXX code or prefix.)

Please contact your account representative with any questions. The PUCO maintains up-to-date Fresh Look information on its Web site, http://www.puc.state.oh.us, along with a voice mailbox at 1-800-525-6667. You may call this mailbox to receive information of current telephone exchanges that are subject to Fresh Look.

At Cincinnati Bell, we stand by our record of service excellence and hope to continue our relationship with you. Thank you for your business.

Sincerely,

Ron Ott

Ron Ott
Vice President — Sales

PUCO-Approved NEC Service Offerings in CBT's Service Area

Cincinnati Bell Telephone	Time Warner
Non Residence Basic Access Line (1FB and/or Analog Trunk)	Standard Business Access Line: Message Service Standard Business Access Line: Flat Line PBX Trunk Service - Analog - DID PBX Trunk Service - Analog - DOD PBX Trunk Service - Analog - Two Way
DID Service	DID Numbers
Non-Published/Non-Address Listings	Nonpublished Service: Recurring per Listing Nonlisting Service: Recurring per listing
Call Blocking – Customer Requested Call Blocking – Sponsor Requested	900/976 Blocking/Unblocking
Custom Calling	Custom Calling Features
Call Forwarding Busy Line Call Forwarding Don't Answer	Call Forwarding Busy Call Forwarding No Answer
Call Forwarding Variable	Call Forwarding
Call Waiting	Call Waiting
Distinctive Ringing	*Distinctive Ringing - 1st Number* Distinctive Ringing - 2nd Number
Speed Calling	Speed Calling - 8 Numbers Speed Calling - 30 Numbers
Three-Way Calling	Three Way Calling
Custom Calling PLUS	
Call Block	Caller ID Per Call Blocking
Directory Assistance Call Completion Directory Assistance Service - Intrastate Directory Assistance Service - Local	Directory Assistance: Per Call Completion Directory Assistance: Per Call Charge
Directory Listings	Directory Listings
Additional Listings	Additional Listings
Hunting Feature	Hunting Recurring Charge (Per Trunk)
	Nonlisted Service
	Recurring per Listing Recurring Charge per retained number –number portability

PUCO-Approved NEC Service Offerings in CBT's Service Area

Continued...

Cincinnati Bell Telephone	Time Warner
Operator Surcharge for Toll and Assistance	Operator Assisted Service Charge
Collect	Per Call:Customer Dialed Calling Card
Customer Dialed Calling Card	Per Call:Operator Dialed Calling Card
Operator Handled Calling Card	Per Call:Third Number Billing
Third Number Billed	Per Call:Collect Calling
Person-to-Person	Per Call:Person - to - Person
	Per Call:Station - to - Station
	Per Call:General Assistance
	Busy Line Verification and Interrupt Service
Operator Verification and Interrupt	Per Request: Busy Line Verification
	Per Request: Busy Line Interrupt
Remote Call Forwarding	Remote Call Forwarding Per Path (under Custom Calling)
Special Access	
Mercury Family of Digital Services	
Video (See Broadband Video)	
Voice Grade	
Wideband Analog	
Wideband Data	
Trunk Advantage (DS1 Digital Trunk Facility)	PBX Trunk Service - Digital - Per Facility
	PBX Trunk Service - Digital - Per DID Access Channel
	PBX Trunk Service - Digital - Per DOD Flat Access Channel
	PBX Trunk Service - Digital - Per DOD Message Access Channel
	PBX Trunk Service - Digital - Per Two-Way Flat Access Channel
	PBX Trunk Service - Digital - Per Two-Way Message Access Channel
	PBX Trunk Service - Digital - DID Number Blocks

NOTE: Nonrecurring Charges are also associated with Time Warner and CBT's services listed above.
Time Warner has been providing competitive access services in competition with CBT's Special Access Services since 1995.

Comparison of NEC Guidelines[1] and Staff Proposals for CBT[2]

Note: Where CBT attributes a competitive advantage to NECs compared to CBT, the category is marked with a 'check'.

✓Contracts	• All services available for contracts • End user contract effective date of signing • End user contracts docketed within 10 days of signing • 30 day automatic approval procedure absent full or partial suspension • Market pricing without cost support • Proprietary treatment may be requested	• End user contracts available to those customers with reasonably available competitive alternatives • End user contract effective date of signing. • End user contracts docketed within 10 days of signing. • 30 day automatic approval procedure absent full or partial suspension • Cost information must be provided • Imputations must be met • Evidence of competition must be provided • Cross reference of the contracted services to tariffed offerings, cell classification, price floors and price ceilings • Preapproval of contracts with minimum level pricing can be sought • Unique, one of a kind contracts that include tariffed services for which there are no reasonably available competitive alternatives considered on a case by case basis, 30 day process outlined above.
✓Packaging and Bundled Service Offerings	• TRF same day filings	• No specific flexibility as requested, except to indicate that any new service that includes a component of an existing service is not a new service. This could mean that all packages or bundles are treated as ATA filings under the staff's general ATA filing procedures.
✓Promotions	• All services eligible for promotion • Terms and conditions of promotions identified in price lists and filed in	• Promotion permitted only for those services specifically enabled through existing tariff language (e.g. *denying CBT proposal that all services be eligible for appropriate promotional treatment*).

[1] NEC guidelines are outlined in the Local Service Guidelines of the Commission, part of the 95-845 proceeding.
[2] CBT flexibility as proposed by the Staff Report of Investigation in CBT's case No. 96-899-TP-ALT.

	NEC TRF docket. • Promotional offerings effective on date of filing. • Waiver of any charges other than a nonrecurring charge shall be limited to 90 calendar days on a per customer basis.	• *Addendum to filings must include specifics of the promotion and the* proposed duration • A *one* year history of promotion on the service must be included • Promotions in excess of 90 days with 12 months are subject to resale. • Existing time frames for approval per promotional tariff (e.g., 10 days).
✓Price Levels	• NECs may charge end users rates based upon the marketplace and are not required to document their end user rates	• Below cost services not permitted to rise to recover costs • Combination of retail pricing rules and wholesale pricing rules create unacceptable disparities.
✓Price Floor	• Only requirement is that services be priced above *incremental* cost. No LRSIC studies need be submitted	• LRSIC plus allocation of joint and common costs on a service level basis – LRSIC studies required
✓Price Changes	• Minimum and Maximum price ranges established – no limits to *number of* price changes permitted within the approved range. • Amended price lists required to be filed with same day effective date	• Effective upon filing IF CBT demonstrates compliance with: - overall price cap and cell pricing limits - Cost (e.g. price?) floor as required for initial pricing changes for Cell 1, 2 & 3 - Service or price reduction for cell4 - Subsequent reduction of price floor for any cell • Corresponding change in applicable wholesale rates • Customer notice
✓New Services	• 30 day prefiling • superseded tariff sheets and price lists • revised tariff sheets and price lists • description of rationale for changes • customer education and information material for new residence services • service effective on 31st day ATA filing	• Both end user and carrier to carrier services fall under these requirements • **Privacy, Essential to Public Safety, or involving 911 usage or access are subject to one process:** - file at least 30 days prior to effective date - LRSIC - Applicable wholesale rate - Forward looking joint and common costs - Imputation if applicable

✓New Services *continued*	• does not preclude suspension • can choose a 30 day ATA filing up front	- plans for notification and education • Services effective on 31st day • Establishment of retail price floors per cell requirements • New retail services do not become part of price cap until at least six months from effective date of the service. • Retail pricing flexibility above the floor will be permitted until the service is included in price caps under the appropriate group. • The wholesale rate must correspond to pricing changes in the retail rate • Objections may be filed within 14 days • **NEW Cell 1, 2 & 3 services and their related Carrier to Carrier resale services not involving privacy, essential to public safety or 911 usage or access should be subject to 30 day review.** - Filing at least 30 days in advance with Chief of Telecomm. division - LRSIC, - Applicable wholesale rate - forward looking joint/common costs - imputation - customer notification/education • After 30 day prefiling review, file publicly • Take effect upon filing unless the filing is suspended • Retail pricing floors set per cell rules • New retail services not part of price cap until 6 months from effective date • Retail pricing flexibility permitted until included in price caps • Wholesale rate must correspond to changes in retail rate • Objections within 14 days • Services determined to have privacy implications, as essential to public safety or involving 911 usage or access or not found in compliance for

✓New Services *continued*		these rules would need to be filed as indicated above (30 days unless suspended)
		• **New Cell 4 Services and related Carrier to Carrier services not involving, P, EPS, or 911.**
		  • Filing at least 30 days in advance with Chief of Telecomm. Division
		  • Joint/common costs
		  • Wholesale rate
		  • Imputation
		• File publicly after 30 days- effect reduction
		• Price Floors
		• Flexibility above floor
		• Wholesale changes correspond to retail

General ATA filings	• Revised Tariff sheets and price lists, if applicable • Superseded price lists • Rationale for proposed changes • Other information in support of its proposal	• Revised Tariff sheets and price lists, if applicable • Superseded price lists + tariff sheets • Rationale for proposed changes • Other information in support of its proposal
Technical/Market Trials	• No known constraints	• *Staff failed to state a recommendation*
✓Service Classifications	• Not applicable	• Cell 1 , bifurcated into *Core & Non core*;Cell 2, 3 & 4 • 5 *Service* Baskets including Res, non res, carrier access, resale and UNE
✓Reclassification	• Not applicable	• 30 Day public process • documentation of proper reclassification based on cell *criteria* • market share and historic sales information must be provided, and if not

		provided should be accompanied by an explanation of why • market share information must examine the relevant indicators of market share in terms of MOU, revenues, customers of a similar class, etc. in the relevant geographic market. • Reclassifications take effect on day 31, absent suspension. • Objections within 14 days.
Change in Terms and Conditions & Withdraw of Service Change in Terms and Conditions & Withdraw of Service *continued*	• ATA tariff filing • File 30 days in advance • Effective 31st day • Customer notification requirements • Demonstration of no customers or justification of grandfathering/withdrawal of service	• For Cell 1, 2, & 3 • CBT must file changes 30 days in advance • Effective 31st day unless suspended • Customer notice, if applicable, must be provided • For cell 4, file on or before the effective date • Staff failed to detail withdrawal requirements for CBT.
✓Process for Parity	• Not applicable	• Outlined in Local Service Guidelines but not clearly distinguished from how CBT's Alt. Reg plan, to the extent that it is different, would govern if some degree of parity is granted. Staff recommendations would not result in parity.

Services Receiving a New Service Classification in CBT's 'Compliance Filing' to PUCO Staff

Switched Access
  Carrier Common Line
  Local Switching
  Local Transport
  Information Surcharge
Telephone Service Assistance
Anonymous Call Rejection
Broadband Connect (Special Access-Video)
Centrex (Access) Lines
COCOT/IPP Usage Charge - Message Rate

Custom Calling
  Call Forwarding Busy Line
  Call Forwarding Don't Answer
  Call Forwarding Variable
  Call Waiting
  Distinctive Ringing
  Speed Calling
  Three-Way Calling
Custom Calling PLUS
  Call Block
  Call Return
  CallerID
  Priority Call
  Priority Forward
Custom Calling PLUS
  Call Tracing
  Per Call Number Privacy
  Per Line Number Privacy
Directory Assistance Call Completion
Directory Assistance Service - Intrastate
Directory Assistance Service - Local
Directory Listings
  Additional Listings
  Alternate Listings
  Changes to Primary Listings
  Secretarial Listings
Electronic Listing Information (ELI)
Hunting Feature for Centrex
Hunting Feature for Residence and Non Residence Basic Access Line
Hunting Feature (Trunks)