

AC

85

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) Case No. 96-899-TP-ALT
Which May Result In Future Rate)
Increases and for a New Alternative)
Regulation Plan)

DIRECT TESTIMONY OF

PAMELA W. RAYOME

ON BEHALF OF

CINCINNATI BELL TELEPHONE COMPANY

February 19, 1997

RECEIVED-REGULATING DIV
97 FEB 19 PM 4:56
PUCO

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business.
Technician SW Date Processed 2-20-97

Competition and Customer Needs

Rate Restructuring and Impact on Rates

Service Classifications

Case No. 96-899-TP-ALT

I. Background and Qualifications

Q. Please state your name and business address.

A. My name is Pamela W. Rayome. My current business address is 201 East 4th Street, Cincinnati, Ohio 45202.

Q. In what capacity are you currently employed?

A. I am a Director in the Market Management group at Cincinnati Bell Telephone (CBT) , assigned on a full-time basis to CBT's *Commitment 2000* plan effort before the Commission.

Q. Please outline your educational experience.

A. I received a Bachelor of Arts degree in Psychology from Miami University in 1981, a superior level diploma in French language from the University of Paris, Sorbonne in 1984, and a Masters of Business Administration in International Business and Marketing from the University of Cincinnati in 1989.

Q. Please describe your professional background and experience.

A. I joined CBT in 1989. Prior to that time, I held various management positions in Human Resources and in Business Research. In 1989, I became a Product Manager

for CBT in the Switched Access group, managing Billing and Collection Services and Common Channel Signaling (CCS) Access Capabilities for Access customers. During 1991 and 1992, I was responsible for Market and Strategic Planning for the Access Market. Subsequent to that assignment, I was selected to become a member of the management group at CBT which was responsible for examining and recommending full scale process re-engineering of the Company's business activities. When CBT re-staffed as one of the outcomes of the re-engineering project in May, 1995, I was named Director of Consumer Services in the Product Management area of Market Management. In this role, I was accountable for revenue goal attainment and for developing and executing product strategies for basic exchange services, including additional access lines, value added services such as Custom CallingSM/Custom Calling PLUSSM, Directory Services, and Voice Messaging. I am now assigned full time to the *Commitment 2000* effort representing the Market Management group.

Q. Have you previously testified before this or any other utility commission?

A. Yes. I have testified as Marketing witness before the Public Service Commission of Kentucky (PSCK) on two occasions. In 1990, I represented CBT as an expert witness on billing and collection issues. In 1996 I testified on CBT's behalf in the rehearing on the decision by the PSCK to re-regulate CBT's inside wire maintenance plan revenues.

II. Discussion of Application

Q. Please describe your assignment in this proceeding.

A. The objective of my testimony is to provide support for the changes that are needed regarding competitive marketing practices that will permit CBT to compete over the term of the plan. My testimony in this proceeding covers many components of CBT's Plan - customer needs and marketing under competition; the retail rate restructuring and rate changes; the Company's proposed service classifications; tariffing rules including pricing flexibility, packages and promotions; and CBT's proposed Carrier-to-Carrier Tariff for wholesale services.

Q. What specific sections of the plan will you address in your testimony?

A. I will speak to the following sections contained in Volume 1 of the Plan:

- | | |
|---------------------------|--|
| Exhibit 1.B.4 - | Rate Restructuring and Impact on Rates |
| Exhibit 1.B.6 - | Competitive Marketing Practices and Pricing
Flexibilities |
| Exhibit 1.B.8 - | Local Competition Issues - Wholesale Services and
Policies and Practices Regarding Resale and Sharing |
| Exhibit 1, Attachment A - | List of Services and Classifications |
| Exhibit 1, Attachment E - | NXX List and Map |
| Exhibit 2 - | Services Matrix and Rate Comparisons |
| Exhibit 3 - | Services Justifications |
| Exhibit 4 - | Legal Notice |

Q. Do you have any corrections to note to these portions of CBT's plan?

A. Yes. In Exhibit 2, two of the "Proposed Category" classifications are reversed. Restoral of Service on pages 55 and 57 should be a "P", and Returned Check Charge on page 252 should be an "M".

Q. Do you have any other corrections?

A. No.

Q. Please provide an overview of the information in Exhibit 1 that you will review in your testimony.

A. Exhibit 1.B.4 contains information regarding the need to eliminate historical rate subsidies and the importance of rebalancing rates in a competitive environment. This portion of the Exhibit contains CBT's rate rebalancing proposal and a description of the related market pricing changes included in CBT's Plan including CBT's proposal to replace its current rate groups with new rate bands. Attachment E to this Exhibit provides a map of CBT's service area that defines these new bands. Exhibit 1.B.6 contains a discussion of the need for pricing flexibility and additional marketing freedoms in a competitive environment. In recognition of the new competitive dynamic, CBT is proposing a new service classification plan to replace the current cell structure. Information regarding the classification scheme and related pricing and tariffing rules are included in this part of the Exhibit. Attachment A to this Exhibit provides a summary of CBT's proposed service classifications and the services included in each category.

Exhibit 1.B.8 reviews CBT's proposed Carrier-to-Carrier Tariff for wholesale services provided to New Entrant Carriers (NECs) and the waivers CBT is requesting regarding the pricing and provisioning of these wholesale services.

Q. Please describe the information included in Exhibits 2, 3 and 4.

A. Exhibit 2, the Services Matrix and Rate Comparison, contains current and proposed rates and tariff references for all of CBT's services. This Exhibit also shows the current cell classification for each of these services and the proposed category under CBT's new classification structure. This Exhibit is sorted by Account Number and service type with information listed for individual service elements.

Exhibit 3 contains an overview of competition in CBT's area including a discussion of activities related to local service competition. This Exhibit also contains competitive justifications in support of CBT's proposed service classifications. These justifications are generally provided for groups of similar services and contain a description of CBT's service(s), information regarding alternative services and providers, and the reason(s) for CBT's classification.

Exhibit 4 is the draft Legal Notice that would be published to notify CBT's customers of the proposed changes.

Q. Are you also sponsoring the Schedules E-1, E-2 and E-3 contained in Volume 3 of CBT's Application?

A. Yes, I am.

Q. Please describe Schedule E-1.

A. Schedule E-1 presents the tariff schedules that are proposed to change as part of this Application. These schedules include a new Exchange Rate Tariff, PUCO No. 3 that cancels and supersedes CBT's current Exchange Rate Tariff, PUCO No. 2. The proposed Exchange Rate Tariff, PUCO No. 3, reflects CBT's proposals to 1) replace its current rate structure of Rate Groups and base/locality areas with rate bands defined by wire centers and the corresponding NXXs (the first three digits of the telephone number after the area code), 2) expand the local calling area to provide flat rate local calling between all of CBT's Ohio customers and 3) restructure rates as part of rate rebalancing. The E-1 Schedule also includes CBT's proposed Carrier-to-Carrier Tariff to resell local service, provide network interconnection and unbundle network elements for New Entrant Carriers (NECs). The remainder of Schedule E-1 contains changes related to other Consumer and Business Market price changes, CBT's rate rebalancing proposal and proposed service classification structure.

Q. Please describe Schedule E-2.

A. Schedule E-2 presents the tariff schedules that are being replaced by the tariff schedules presented in Schedule E-1.

Q. Please describe Schedule E-3.

A. Schedule E-3 provides the narrative rationale for the tariff changes proposed by CBT and for rates which are not proposed to change as part of this proceeding. A separate rationale is provided for each service or group of services to which a

specific change applies. Each rationale includes a description of the change and justification for that change.

Q. Are you sponsoring Schedules E-4, E-4.1 and E-4.2 contained in Volume 4 of CBT's Application?

A. Yes, I am.

Q. Please describe Schedule E-4.

A. Schedule E-4 provides a high level comparison of the current and proposed annual revenue for CBT for the test year with December 31, 1995 date certain quantities. This schedule summarizes the revenue and revenue changes by account code and for each of CBT's basic exchange services. Schedules E-4.1 and E-4.2 provide service specific information in support of the summaries in the E-4 Schedule.

Q. Please describe Schedule E-4.1.

A. Schedule E-4.1 is the Detail Band Schedule Basic Exchange Rates which lists the current and proposed rates for all of CBT's main services. This schedule also provides detailed breakdowns of the test year quantities and the corresponding annual revenue for the current rate groups and for the proposed bands for CBT's main services.

Q. Please describe Schedule E-4.2.

A. Schedule E-4.2 is the Detail Other Service Rates which provides quantities, rates and revenue for services that are not addressed in Schedule E-4.1. Schedule E-4.2 follows the same format as Schedule E-4.1 in providing current and proposed rates

and revenue with the data sorted by Account Code.

Q. Please summarize the revenue information provided on Schedules E-4, E-4.1 and E-4.2.

A. These schedules support CBT's revenue neutral filing, as Mr. Marshall discusses in his testimony. Specifically, the net revenue change under CBT's plan is a reduction of \$3,571.82 for the test year. These schedules also identify the specific services where rates will increase or decrease, the amount of the increase or decrease, and the revenue associated with these changes. As I will discuss later in my testimony, CBT is proposing to rebalance its rates. These schedules identify the revenue shifts associated with rebalancing.

III. Customer Needs

Q. What role do customer needs have in the development of CBT's *Commitment 2000* plan?

A. Customer needs are an important factor leading to CBT's proposals for greater marketing flexibilities. Today, CBT strives to meet customer needs for three primary markets -- Consumer, Business and Access, as well as a number of specialty markets including Health Care and Education. In formulating its *Commitment 2000* plan, CBT sought to create an environment in which it would be free to continue meeting customer needs without being disadvantaged relative to its competitors. If approved, *Commitment 2000* would allow CBT to compete based on its capabilities

as a viable market participant, thereby insuring that consumers receive the full benefits of competition. CBT's current Alternative Regulation Plan cannot accomplish this goal. *Commitment 2000* can be the vehicle that insures a robust and competitive telecommunications environment that balances the needs of consumers, competitors and CBT.

Q. What are the customer needs being evidenced in the Consumer Market?

A. CBT's consumers desire high quality, reliable phone service at a fair price that reflects the value of the service. In addition to quality products, consumers also expect consistent customer service and regular communications containing accurate and timely information about products and services. Many customers now want additional enhancements to existing products, to provide them with the opportunity to purchase products when and where it is convenient for them to do so, and for those products to be available in one easy-to-purchase package at a reasonable price. Increasingly, one size does not fit all consumers. CBT's customers want to build their own packages of services that fit their needs, expect discounted pricing to be reflected in the package price, and often prefer a one stop shop for integrated billing and customer service and support.

Q. What are the customer needs being evidenced in the Business Market?

A. The business market is exceptionally diverse in its needs and expectations of a telecommunications supplier. For the largest business customers, reliance on telecommunications services is critical to achieving their business success.

Businesses expect CBT to develop full service solutions that apply the range of technological capabilities in a way that brings productivity and success to their organizations. For larger business customers, efficient data networking and transport needs are growing even more rapidly than traditional voice communication requirements, driven in part by the proliferation of multi-location businesses, sophisticated Local Area Network (LAN) capabilities, telecommunications needs and remote access to information requirements. The product mix sought by business customers is growing more diverse as a result of these needs. The product and service needs evidenced by businesses in CBT's market area extend beyond the features and functions of the product itself to include expectations for excellence in the products' associated service delivery performance. Further, they require customized solutions developed through consultative sales and full account management, streamlined implementation and installation of services, access to technical and market-based trial capabilities to test solutions, and superior after-sales support and customer service. They look for a full range of products that are value priced and feature rich. They seek products and services that provide natural migration paths from analog to digital services and from relatively simple to increasingly complex turn key solutions that integrate numerous components of a full telecommunications application.

Q. How does CBT view the unique needs of small businesses?

A. For most small businesses, telecommunications serves as their primary means to

communicate effectively with their customers. Telecommunications products and services that help to increase productivity, decrease costs, improve efficiency, and enhance their company's image, without being complicated, are extremely important to this market. Small businesses understand the power of telecommunications and view telecommunications as a key to the success of their business.

Q. What are the education market needs in CBT's service area?

A. The needs of the education market fall into many categories, including funding, support and development. School principals participating in a recent NCREL (North Central Regional Educational Laboratory) survey identified costs for computer hardware and networking and for making structural changes in school facilities as the primary barriers to statewide education telecommunications technology use. Schools are looking for total integrated solutions to make full use of all the available technologies, and often lack on-site technical expertise to fully integrate and provide support to implement technological solutions. Schools wish to enhance student learning beyond the classroom, and to effectively access information and resources not otherwise readily or easily accessed. This ability will support staff and professional development needs by allowing communication and collaboration with others for research, projects, and exchange of ideas promoting intellectual development. This includes improving communication with other instructors/professionals worldwide to better understand cross-cultural perspectives, exchange ideas, conduct peer review, and ask questions. Finally,

student development would be supported by enabling students to acquire and process information skills by sharing ideas effectively through a variety of integrated media and encouraging the use of high-order thinking skills, group interaction and decision making.

Q. What trends do you see for education in CBT's market area?

A. Teachers and administrators are preoccupied with the logistics of installing hardware, planning for staff development, and considering new curricular opportunities. They are looking to government and business to provide financial and resource support to integrate and implement the technology.

Q. What is CBT doing to meet the education market needs?

A. CBT is supporting education through education/corporate partnerships such as Ohio SchoolNet Telecommunity; providing collaborative efforts, whether financial, technical, or political supports for integrating new technology in K-12, higher education, libraries and zoos; encouraging universal access in schools so that networked technology is systematically accessible; assisting funded sites in addressing resource needs so that they become more entrepreneurial in addressing the long-term requirements of telecommunication technology access; and encouraging state government to continue funding priorities for low-wealth school districts and providing totally integrated packages for schools to support them in integrating and implementing technology. These education market needs will be supported and reinforced through CBT's education commitment as discussed in

Mr. D.I. Marshall's testimony.

Q. How is CBT addressing the needs of its health care market customers?

A. Health care industry participants in CBT's market are undergoing unprecedented changes to survive an increasingly competitive market for delivery of health care services. To achieve a competitive edge over competing health care providers, these customers are working to develop critical capabilities through vertical integration, the ability to provide care for a low cost, the ability to move to an environment where payments received for services delivered are capped, as well as the shift to regional geographic coverage. Their expectations of their telecommunications supplier are to maximize the application of technology in a cost effective way to develop these capabilities and thus increase their effectiveness in delivering patient care. CBT is helping health care customers to build the infrastructure necessary to run advanced applications such as telemedicine and to bridge the distance within the region through secure data transmission. As Mr. D.I. Marshall discusses in his testimony, CBT is responding to these customer needs and recognizes the increased consumer benefits to be derived from improved community access to health care through the Health Care Commitment being made as a part of *Commitment 2000*. This commitment, in addition to CBT's ongoing efforts to meet the individualized needs of its health care market customers, appropriately reflects the customer needs being addressed in this market.

Q. What are the customer needs in the Access Market?

- A. Access customers are intensifying their requirements for virtually continuous up-time, low network error rates, short delivery intervals, service guarantees and lower prices. As competition broadens and technology advances are realized, Access customer expectations and those of their end users will continue to escalate, and Access customer retention will become more challenging. To remain the Access customer's supplier of choice, CBT will need to continue to deliver high levels of service, quality and competitive products featuring reliability, diversity and survivability, network management services and differentiation of service levels to meet varying end user requirements.

To meet the changing needs of large access customers, CBT requires the latitude to develop, price and deliver an integrated product mix of high quality/competitive value access services. In addition, CBT needs the flexibility to individually address the unique requirements of emerging and niche access market customers.

- Q. What other market needs is CBT currently attempting to meet?

- A. As is evidenced by CBT's filing of the Carrier-to-Carrier tariff with the *Commitment 2000* plan, CBT is currently supporting the development of an entirely new class of wholesale customers through services made available to the New Entrant Carriers (NECs) in CBT's area.

IV. Competition

- Q. Does CBT experience competition today in the markets it serves?

A. Yes, in one form or another. Companies such as Time Warner and Intermedia Communications, Inc. (ICI) compete directly with CBT today for business and Access customers for complex and high speed services. Others offer alternative services in the form of cellular services available to both businesses and consumers. Others are in related markets, but under the current Commission requirements, they could well be direct competitors of CBT in the near future. As of February 12, 1997, 23 companies have filed for approval to provide local service in Ohio. Eleven of these have filed for approval to provide competing services in CBT's operating area.

Q. Does this represent a change from the information contained in the Application filed on February 5, 1997?

A. Yes. Since the filing of the Plan, the following changes have taken place relative to providers of competitive local exchange service in the CBT service area:

- (1) LCI International Telecom has amended its application to request authority to provide local exchange service only in the service territory of Ameritech Ohio.
- (2) AT&T applied to amend its Certificate of Public Convenience & Necessity issued in Case No. 96-190-TP-ACE in order to expand its service area to those specific areas of the State of Ohio where CBT is the incumbent local exchange carrier.
- (3) MCImetro filed for arbitration of outstanding issues of the Interconnection

Agreement with CBT.

- (4) ICG Telecom Group, Inc. petitioned for arbitration to establish an Interconnection Agreement between ICG and CBT, but requested approval of the parties' agreement to postpone the invocation of FCC or state commissions' jurisdiction for a period of thirty (30) days after the expiration of the time period defined under Section 252(b)(4)(c) of the Act.

Q. What evidence does CBT have that MCI plans to compete in CBT's local service market?

- A. Exhibit 1 to my testimony is a press release dated February 6, 1997. It cites Cincinnati as one of six additional markets in 1997, bringing the total to over 30, in which MCI will aggressively pursue local service customers.

Q. For which services do these companies compete today?

- A. CBT currently experiences competition across a broad range of services. The number of current and potential competitors for CBT's customers is growing and is evidenced through competitive alternatives in the form of wired and wireless offerings. The competitive alternatives include cellular and Personal Communications Services (PCS); microwave, very small aperture terminal (VSAT) and private networks; wireless fiber and wireless loop applications; Competitive Access Providers; facilities based and resale interexchange carrier market participants; data networking and systems integration firms; cable; and growing segments such as paging services.

CBT experiences competition today in the area of Access services from competitors, such as Time Warner and ICI, which both have the infrastructure in place today to offer competitive local services. By March 3, 1997, as many as eight companies could be authorized to provide competitive local switched service.

Additionally, Teleport Communications (TAG) and ICG Access Services Inc. (ICG) have announced plans to build their own networks to include switching capabilities. All these companies will have flexibility in the services they offer that is not afforded CBT, or other existing LECs in Ohio. CBT has already lost business to competitors offering access services.

Competitors in this new environment have forced an expansion of the traditional definition of a communications company. Entertainment and information companies have expanded their product suite to include a broad range of communications services. Many of these companies already have a customer base within CBT's operating area upon which they can quickly build a base for local competitive services. Also, several of the NECs, such as AT&T, Sprint and MCI, bring existing broad national and international networks and products into play to bundle with the newly competitive local exchange service business.

Several of the companies competing or planning to compete in CBT's operating area already have information on CBT's customers through services such as long distance, wireless, Internet services and calling card transactions. As a result, these companies have the ability to segment and target specific markets and leave less

desirable markets that are less profitable exclusively to CBT.

Q. How quickly can new competitors enter the market to compete for CBT services?

A. The Commission has established an expedited review process for a potential NEC allowing it to be operational in as little as 60 days. Existing NECs operating elsewhere in Ohio may be operational in the CBT service area in as little as 30 days. Additionally, regardless of filing to provide competitive service in the CBT service area, CBT is mandated by the Guidelines to expend resources and conduct interconnection negotiations with any party making a "bona fide request" for such discussions.

With an interconnection agreement and the ability to purchase unbundled portions of CBT's network at wholesale rates or with resale, competitors can compete head-to-head with CBT services on the date they receive authorization from the Commission to do so.

Q. Is the actual number of potential CBT competitors limited?

A. To a large extent, no. The market for communications services is broad and has many supporting segments. As previously noted, there are a great number of participants across the spectrum that have connection to, or participate in delivering related services to the consumer, business and access market segments. The expedited process for local exchange service authorization means that new entrants can begin providing local service in CBT's area within as little as 30 days.

Q. How will the merging of previously separate industries impact CBT?

- A. CBT faces great competition from previously separate, non-traditional industries that now have the opportunity and incentive to provide local telecommunications services. Interexchange carriers, previously prevented from competing in the local market, have announced plans for one-stop-shopping access to all communication services including their primary business, long distance, as well as local service, wireless service, data and entertainment services.

The primary cable television operator in the CBT market, Time Warner, provides the transport for their local competitive access provider, Time Warner AxS. Therefore, the entity competing most directly with CBT services does not bear the financial burden of constructing the necessary network to reach potential customers.

Additionally, end-to-end service providers are combining the previously separate network and equipment/hardware elements to deliver complete solutions from a single source.

- Q. What is the nature of competition for CBT's Business Market services for both dedicated and switched services?

- A. There are currently five (5) authorized and two (2) operational competitive access providers (CAPs) operating in the CBT service area. The level of competition in the dedicated area of the business market is growing, and CBT has lost embedded and growth high-cap circuits to both Time Warner and ICI. These same customers are expected to be the initial targets for other providers of switched service in the near future. For the existing CAP customer base, a strategy of incremental acquisition

puts at risk CBT's trunk business which competitors can acquire without deployment of facilities. Because business customers are more geographically concentrated, have high call volumes and need sophisticated equipment, new entrants target them first. This "creme skimming" strategy exists because of the pricing disparities that are inherent in CBT's existing rates.

WinStar Wireless of Ohio, Inc. presently provides wireless DS1 service and offers dedicated access for business and IXC customers. As with most other new entrants, WinStar targets businesses with its high speed digital offerings. This selective market entry benefits only selected business customers rather than all customers.

The business market is a heavy user of wireless services today. Traditional cellular service competes with wire line service for voice and data transmission. Credit card verification via portable wireless card readers uses burst-like technology and opens opportunities for fixed and mobile use in competition with ISDN and Frame Relay. PCS service providers have in place the capability today to combine paging, switch-based calling services and wireless phone technology and provide competition across a wider range of CBT's service offerings. This is the type of service that is available today in Washington D.C. from Sprint, and as noted in Exhibit 2 to my testimony.

GTE announced it will be rolling out its PCS service offering in Cincinnati on February 17, 1997.

Finally, cellular service providers are making wireless service accessible to a broader market of potential customers through reduced pricing, free calling periods and

increased agency agreements and sales/service locations. As prices continue to fall and migrate to a flat rate structure, the cellular phone or PCS service can become viable substitutes for traditional wire line service in many circumstances.

Q. What are the various forms of competition within the market for dedicated access to the Public Switched Telephone Network (PSTN)?

A. Dedicated access can be provided in a number of ways today including via competitive networks currently operated by Time Warner AxS and ICI. Additionally, WinStar Wireless of Ohio has operational capabilities today in Cincinnati for wireless access using the millimeter wave technology. These companies provide special access services in competition with CBT's multiplexed DS0, DS1 and DS3 services, and have numerous customers.

Increasingly cellular telephones are providing competition for access to the PSTN. The increase in the number of authorized agents (resellers) of existing cellular networks - there are currently over 30 cellular service dealers listed in the Cincinnati Yellow Pages - has lead to growth in sales/service locations - over 50 in the Cincinnati area - and thus a broader reach in the community for potential customers. This explosion in sales agents and locations has also lead to downward pressure on minutes-of-use cost and the roll-out of free air time.

Q. What is the extent of CAP competition within CBT's market area?

A. Five CAPs with national presence have applied for certification in CBT's service area. Currently, two are active providers of service in the CBT service area - Time

Warner AxS and Intermedia Communications, Inc.

Time Warner AxS is a facility based provider of competitive access and private network services, utilizing primarily the Time Warner Cable network currently being replaced in Cincinnati with extensive fiber backbone and feeder architecture. AxS is targeting medium to large businesses and offers DS1, DS3, multiplexing and hub services. CBT is currently aware of two operational Time Warner rings - one serving primarily the downtown Cincinnati area, and a second and much larger ring encompassing and passing the major business areas of the Cincinnati market. Both utilize Synchronous Optical Network (SONET) standards in their construction and operation.

To gain access to business customers in the downtown Cincinnati area, Time Warner is utilizing the extensive conduit system of Cincinnati Gas & Electric (CG&E), thus removing a major obstacle previously limiting competition in this highly concentrated market segment.

Time Warner is currently collocated at a CBT central office. They have announced expanded plans for switched business service including the purchase of switching technology to serve the business community in Cincinnati.

Intermedia Communications Inc. (ICI) is a facility based CAP utilizing the Western Union ATS conduit system (CG&E's and CBT's are the other available conduit systems) in the downtown Cincinnati area to gain access to the major concentration of business customers. CBT is losing embedded and growth multiplexed DS0, DS1

and DS3 customers/circuits to ICI.

ICI has been very active in the southeastern United States for some time. The area of greatest competitive activity has been Florida where it has active and very competitive networks operating in the major business centers and cities. In these situations, with authority to provide competitive local service, ICI is bundling local service, trunks, digital facilities, data and long distance to fulfill specific customer requests. ICI has in place today the capability to provide competitive local services. Additionally, the FCC Rules and Commission Guidelines allow ICI to take this considerable experience and knowledge and immediately provide competitive local services without the expenditure of additional capital for facilities because they will be able to purchase end-to-end service from CBT at wholesale rates, and purchase unbundled elements to combine with their existing facilities.

Additional major CAPs have filed to provide local service in the CBT service area, including MFS Intelenet, ICG and Teleport Communications Group. Both ICG and Teleport have announced plans for construction of fiber optic networks in Cincinnati, with work beginning on both in 1997.

Q. Please describe the history of CAP development in CBT's area.

A. Initially, competitive access providers (CAPs) provided only services linking businesses to their long distance carriers, and private-line services that linked businesses to their other locations. As deregulation continued these companies have been able to provide other value-added products and services, including enhanced

data services like frame relay. The passing of the Telecommunications Act of 1996 opening the local marketplaces now allows CAPs to compete on all fronts against CBT.

Also assisting the development of CAP activity has been the FCC rule making on collocation, requiring LECs to file tariffs for collocation. This has allowed CAPs to serve subscribers who are not physically located on their fiber rings. The 1996 Act greatly expands the FCC's collocation requirements, allowing companies such as ICI to collocate their equipment with the LECs and requiring the LECs and other competitors to reciprocally compensate each other for terminating traffic on each other's networks. As a result of these provisions, companies such as Time Warner AxS and ICI will gain access to an expanded customer base, and will be able to realize a reduction in its own costs of interconnection.

The following five companies have been granted certificates of Public Convenience and Necessity in the CBT service area:

Time Warner AxS
Intermedia Communications, Inc. (ICI)
ICG Access Services (ICG)
City Signal, Inc.
Western Union ATS, Inc.

On February 22, 1996 ICG announced it will invest \$8.8 million for construction of a major 331-mile fiber-optic network in Ohio. The construction project was described by ICG as an "extensive network expansion" that will provide "a direct fiber link between ICG's existing networks in Cleveland, Akron, Columbus, Dayton,

and a new network under development in Cincinnati."¹ ICG asked the Commission on August 31, 1995 for the authority to provide competitive dial tone service in the areas of Ohio where it currently has facilities or CAP authority, as well as reselling the service of existing LECs. On December 11, 1996, ICG amended their application for local service to include all of Ohio.

In December of 1992, City Signal, Inc. filed for a certificate of public convenience and necessity to provide "intrastate, intra- and interLATA high capacity transmission services" including high-speed video, data and voice communications, in Cuyahoga County (Cleveland), Summit County (Akron), Franklin County (Columbus), Greene and Montgomery Counties (Dayton), Hamilton County (Cincinnati), Lucas and Wood Counties (Toledo), Mahoning and Trumbull Counties (Youngstown). This application was approved on April 22, 1993.

On October 23, 1992, Western Union ATS, Inc. filed an application with the PUCO seeking authority to furnish direct non-switched private line services in Cuyahoga, Franklin, and Hamilton counties. On May 10, 1993, the applicant amended the application indicating its name had been changed to Access Transmission Services, Inc. (ATS) and further outlined its plans to operate a high capacity transmission network providing high-speed video, data, and voice communications. On June 24, 1993, ATS Inc.'s application was approved and a certificate was issued authorizing

¹ICG Press Release, "Intelcom Group Inc. Announces 331-Mile-Fiber-Optic Network Build in Ohio, More Than Doubling Current Network in the State," PR Newswire, February 22, 1996.

the applicant to provide dedicated non-switched intrastate high capacity fiber optic transmission services. ATS, Inc. is a subsidiary of MCI Metro.

Q. What type of services are CAPs offering?

A. Today, both Time Warner and ICI offer the most popular end-user services - DS0s, DS1s and DS3s from the customer site to the IXC point of presence, competing directly with CBT for interexchange access. Additionally, Time Warner and ICI have the ability to offer high speed services to compete with CBT's native LAN services, trunking services, broadband connect and MercNet special access services. The CAPs primary focus in Cincinnati has been CBT customers in major business centers. Time Warner and ICI's value proposition is the competitive advantages of route and carrier diversity, as well as alternate facility entrance/exit.

In the current environment, both Time Warner and ICI possess the capabilities to provide competitive local service and offer a bundled set of services including access, frame relay, local exchange telephone service, long distance, and Internet access.

Time Warner AxS promotes itself as "Greater Cincinnati's new telecommunications alternative." Their promotional literature and advertising list the following offerings: LAN services; enhanced voice, data and video transport between company locations; and access to long distance carriers.

ICI offers fiber optic network services, frame relay and ATM (Asynchronous Transfer Mode) transport, access services, and long distance, with plans to offer

local service for business. Their apparent strategy is to expand LAN interconnection and frame relay offerings. ICI provisions services off of its SONET based ring, located in downtown Cincinnati and has as a primary target business and government customers.

Q. Are you aware of any customers that have purchased services from CAPs in CBT's market area?

A. CBT has experienced the loss of both growth and embedded business to competitive access companies. The estimated annual revenue lost to these CAPs likely totals well into the hundreds of thousands of dollars. CBT was recently informed that AT&T will be moving at least 15 multiplexed DS3s to Time Warner, the first scheduled for late February 1997. Given that there are 28 channels in a multiplexed DS3, the number of end user customers involved in this transaction will be considerable. Time Warner has also taken existing DS1 and DS3 business from CBT involving major financial institutions and financial services companies in Cincinnati.

CBT has lost both existing and growth business to ICI - primarily involving connections between end users and their preferred IXC's.

Q. What has been the result of this competitive activity on CBT?

A. In those markets where CAPs are active, CBT's market position is eroding. CBT is losing growth business as customers migrate circuits to competitors. It is also losing embedded business as customers take advantage of special incentives, or in response

to corporate/national agreements.

CBT expects the primary competitive forces to have the greatest impact on CBT in the highly concentrated business areas of its territory. CBT's competitors will leverage existing customers, as they have done with similar market segments elsewhere, and will likely approach these customers for expansion into the switched access markets when approved.

In the business market of the immediate future, CBT's products and services will face numerous competitive alternatives by companies that have significantly more marketing flexibility.

Q. What is the extent of microwave competition within CBT's market area?

A. Private microwave systems are primarily used for point-to-point data transmission between two locations. Often data traffic from remote work sites is aggregated at one central location and then multiplexed into a private microwave system for transmission to a distant host computer. This example is in direct competition with DS0, DS1 and DS3 services. As customers consider replacement for existing analog services, microwave technology presents a viable alternative in some cases, and represents a growing competitive threat to CBT.

In 1992 there were 121 links for private microwave paths in the CBT service area.

In 1995 there were 160 private microwave paths, representing 30% growth.

Microwave customers in CBT's operating area include universities, corporations, hotel chains, hospitals, city and county governments, the State of Ohio, and users of

local area networks.

Q. What is the extent of Very Small Aperture Terminal (VSAT) competition in CBT's market area?

A. There are several VSAT service providers currently operating within CBT's service area. VSAT network vendors use satellite technology to deploy data networks that are designed to compete in markets serviced by dial-up business lines, public packet networks and private multi-drop leased line networks. Few barriers exist for the VSAT providers to enter the market. The capacity to transmit large amounts of data, declining costs of equipment and the ability of the end user to avoid dealing with multiple phone companies has made VSAT an attractive technology for customers in CBT's operating area.

VSAT providers include Integrated Communications Network (ICN), Hughes, and MCI. ICN provides data communication networks, through satellite links to companies with multiple locations around the United States and is a value-added reseller for Hughes Network Systems. Datalinc, a satellite technology network which operates through Hughes Network Systems' Personal Earth Station VSAT, is designed to replace multi-drop and point to point land line networks. MCI sells MCI Skyline, a VSAT service which interconnects offices in the United States and Europe.

There are many customers utilizing VSAT technology in CBT's operating area today, including Standard Register Corp., BP, Walmart stores, several auto

dealerships, Kmart, Walgreen's, Shell, Holiday Inn, Days Inn and Embassy Suites.

Also, a major Cincinnati financial institution has realized the value of VSAT services for connection of automatic teller machines back to a central point, in direct competition with CBT's data networking services such as ATM, Frame Relay and ISDN Packet.

In 1993 there were approximately 131 VSAT sites. In 1995 there were more than 200 - representing an increase in excess of 60%.

Q. What is the extent of Wireless, PCS and Paging competition within this market?

A. Cellular license holders Airtouch and Ameritech and their authorized resellers are very active in CBT's operating area, working to expand the market for wireless communications for voice and data applications. The Cincinnati Yellow Page listings contain thirty-three (33) providers/sellers of the two operational cellular networks, and a total of over 50 locations for sales and service. MCI is an authorized reseller of Airtouch Cellular service.

PCS license holders AT&T and GTE (owners of A and B block licenses) are prepared to enter CBT's operating area with both likely launching in 1997. Sprint (owner of the D block license for the Cincinnati area) is also developing a national code Division Multiple Access ("CDMA") network and will likely include this market in their plans.

NextWave, the C block auction winner is planning to roll out a national CDMA network to be made available on a wholesale basis for resale. MCI has announced it

will offer CDMA-based PCS services here once NextWave completes its Cincinnati network. The following is a list of PCS license owners for areas that include the CBT service area:

AT&T	A-Block
GTE	B-Block
NextWave	C-Block
Sprint	D-Block
CBT	E-Block
Cook Inlet	F-Block

Competition in CBT's operating area for paging services is active with three players (Pagenet, USA Mobile, Airtouch) holding the majority of the market. With the introduction of narrow band PCS - used for enhanced paging services like two-way paging and voice paging - a robust resale market and a large pager supplying network, activity in this market is expected to increase at a steady pace and provide alternatives for certain CBT services.

Q. What are some examples of Wireless offerings being made in CBT's service area?

A. CBT is beginning to see more aggressive advertising suggesting cellular/wireless service as a substitute for wire line service. For example, a current Airtouch marketing campaign promotes cellular service as a substitute for the pay phone. Midwest Cellular, an authorized reseller of Ameritech's service, is promoting "free nights and weekends" until 1998, suggesting cellular service as a nighttime and weekend alternative to wire line local service. Additionally, Ameritech is now offering a pay-as-you-go cellular service in Cincinnati - the "Pick up & Go" Pack - allowing customers to purchase air time as needed, avoiding long term contracts or a

credit check.

Q. To what extent does CBT experience competition in its IntraLATA toll market?

A. As part of CBT's current alternative regulation plan, CBT agreed to implement intrastate intraLATA equal access in all of its Ohio central offices. CBT completed this conversion for all but one office by December 1995, and this last office was converted in September 1996. Thus, all of CBT's Ohio customers have a choice of over 100 intrastate intraLATA toll providers that can be accessed using 1+ dialing. Customers have additional options for completing intraLATA toll calls by using 10XXX dialing, Feature Group B access (950-xxxx access) or wireless service. While difficult to quantify, CBT has experienced a loss of intraLATA toll service subscribers as a result of this competition. These losses are likely to increase as new competitors offer packages of local and long distance services, including discounted intraLATA toll.

Q. What technological advances will have an impact on competitive activity within CBT's area?

A. There are several areas where technology is playing a direct roll in competition to CBT. The development and improvement of equipment to allow for voice traffic to be carried over an Asynchronous Transfer Mode ("ATM") network will allow competitors currently providing ATM service to business customers to expand their service offerings, possibly without additional facilities.

The development of operational millimeter wave equipment has allowed WinStar

Wireless to develop and roll out a competitive high-capacity service in Cincinnati without the need for expensive copper/fiber deployment. WinStar's service competes directly with CBT's multiplexed DS0, DS1 and DS3 services.

Additionally, the development of wireless modems has allowed greater freedom for mobile professionals and has removed the necessity of using wired services from CBT for the transmission of data.

Q. What evidence does CBT have that integrated service providers offering packaged solutions will emerge in its market?

A. 1996 may well be remembered as the year packaged offerings emerged as the primary competitive local exchange market sales message. The big three - AT&T, Sprint and MCI - and a host of mid-level players fought to gain and hold market share. But the local exchange piece, and all the ancillary services/features that went with it, was always provided separately by the local exchange carrier.

Bundling of local exchange service and features with the previously competitive long distance and/or access services is, today, the primary focus of New Entrant Carriers (NECs) in competitive markets. Specifically, NECs such as MFS Intelenet, Cable & Wireless, Intermedia Communications, Inc. (ICI) and AT&T are pursuing the strategy of "one-stop-shopping" with respect to service in competitive markets. In Chicago, under the banner "MFS Integrated Communication Services: One Company. Many Solutions,"² MFS Intelenet is focusing on the business market with

²MFS Sales Material, 1996.

a variety of bundled "business solutions" including the following elements:

- Local Service
- Long Distance Service
- Equipment Provision and Servicing
- Calling Card Services
- Enhanced Fax Services
- Voice and Data Systems
- Voice Mail
- Video/Audio Conferencing

Cable & Wireless promotes itself as "the first interexchange carrier in New York, Connecticut and California to offer (this) integrated local and long distance phone service with consolidated billing through a single point of contact."³ Additionally, Cable & Wireless lists the following service offerings that may be bundled with their traditional long distance offerings:

- Local Exchange Service
- Long Distance Service (Domestic and International)
- Data Services - Managed and Private Line
 - Frame Relay
 - System Network Architecture over Frame Relay
 - DS1, DS3 and E1 (European T-1 equivalent) Service
 - Packet Switching
 - Router Management
- Enhanced Fax and Data Transfer Service
- Paging Services
- Comprehensive Suite of Internet Services

In addition, Cable & Wireless announced plans to begin offering *Business*

First_{sm} Cellular in the fall of 1996, a resold cellular service, "as part of a competitive

³Cable & Wireless, Inc. sales material and Corporate Profile 1996.

package of telecommunications services."⁴

Intermedia Communications Inc. (ICI) markets itself as an end-to-end voice and data solution for businesses of all sizes, and offers business customers the following services packaged together in a variety of billing alternatives and detail levels⁵:

- Long Distance Service
- Local Service
- Frame Relay Service
- ISDN Service
- PBX Trunks
- Dedicated Internet Access
- Centrex Service
- Premise Equipment
- Network Management
- Enhanced Voice Services

AT&T began its local service offering to residential customers in Rochester, New York, and has agreements with five CAPs operating across the country that allows AT&T to utilize CAPs' extensive local networks in the concentrated business markets to provide local and long distance services.⁶ AT&T is bundling long distance and local services to provide customers discounts on the total package price.⁷ Specifically, in Illinois AT&T is offering Ameritech customers discounts and

⁴ *Ibid*

⁵Intermedia Communications: Intermedia Introduces Local Switched Dial Tone Services in Jacksonville; Information Access Company, IAC Newsletter, Database [ICI Press Release], December 17, 1996.

⁶Phillips Business Service, April 12, 1996.

⁷"Consumers in Rochester Benefit as Phone Firms Fight for Market Share," Jon Mealey, Buffalo News, p. A.19, June 9, 1996.

"three free months of local toll service"⁸ in an effort to introduce existing long distance customers to AT&T's "local" service.

It is clear from these examples that CBT's competitors have recognized packaged offerings as key market entrant strategies. It is highly unlikely that their market approach would be different in Cincinnati. Additionally, the NECs will not have the restrictions on bundling basic access lines with other services that CBT faces today. Thus, they possess a distinct competitive advantage over CBT in their ability to package/bundle and price a broad range of services for business and residential customers. Therefore, CBT is seeking the same level of flexibility afforded its competitors in regard to the marketing of these customer packaged solutions, as well as the recognition that these offerings are more appropriately viewed as pricing options to services rather than as "new services" subject to the Commission's procedures for approval of new services under the Company's existing Alt. Reg. Plan. As long as the imputation and price floor requirements are met by CBT as outlined in the plan, no additional pricing constraints should be placed on these packaged offerings. If CBT is unable to gain this flexibility, it will be incapable of responding to marketing strategies generated by competitors, and will be disadvantaged in meeting its customers' needs.

⁸"Ready, Set, Devour?" Catherine Arnst, Business Week, July 8, 1996, pg. 118.

V. The Need for Marketing Practices/Flexibilities

Q. Can CBT meet the customer needs you have discussed in the competitive environment just reviewed without additional marketing flexibilities?

A. No.

Q. What role did customer needs and the competitive environment play in the development of CBT's *Commitment 2000* plan?

A. CBT's market planning process begins with an assessment of customers' needs. Product pricing initiatives, promotions, packaging initiatives, product development priorities and other market initiatives evolve from the value proposition CBT formulates to meet the identified customer needs. The proposals included in CBT's *Commitment 2000* plan are those that are needed to maximize the effectiveness with which CBT executes its market plans and will facilitate CBT's attainment of its marketing objectives. These proposals reflect CBT's assessment that a new set of competitive marketing practices and pricing flexibilities is needed to maximize CBT's effectiveness in creating value in serving our customers.

Q. CBT's plan calls for additional marketing and pricing flexibility across a number of areas. In what areas is CBT proposing changes from its current alternative regulation plan?

A. As detailed in the Application, CBT is proposing revised practices in the following areas: pricing; process requirements; promotions; packaging; individualized customer

solutions; market and technical trials; new services and new service categories, as well as process changes for filings, withdrawal of service, restructuring and reclassification of services. The specific flexibilities are listed and further discussed in Volume 1, Exhibit 1, pages 62-64 and 72-84 of CBT's Application.

For benefits to flow to all customers in the market, and not only selected high-end segments, CBT must have the marketing flexibility to introduce new services without delay, the ability to combine Primary services with Market Based services into discounted bundled offerings, substantial pricing flexibility - given appropriate proposed safeguards, and the ability to differentiate services and products without restrictions on promotional offerings. Without such flexibility, a viable competitive market will not exist and the promoted benefits will exist for a very limited number of customers.

Q. What are some of the basic principles that were employed in developing CBT's pricing proposals and requests for additional marketing flexibilities?

A. Satisfactory competitive response, simplification, parity and flexibility.

Dr. Emmerson's testimony touches on the economic efficiencies of some of these principles. In addition, as I have already discussed, CBT should not be disadvantaged relative to other competitors if it wants to continue meeting customer needs. CBT has sought to simplify its rate structures to aid in customer awareness and understanding of our pricing, and is seeking streamlined regulatory processes. The impact that rate changes would have on CBT's customers, and cost

requests for marketing flexibility.

Q. Why is price flexibility important for creating long-term value for consumers?

A. Consumers cannot receive the benefits of competition unless all providers are free to price services without significant restraints. Allowing reasonable marketing flexibility to CBT allows customers to select a provider based on perceived value rather than artificial pricing restraints.

In a competitive market, customers' buying decisions reflect a complex set of factors including price, quality and value. Consumers benefit when all competitors having the ability to vary the marketing mix of their products and services. CBT requests the ability to price services competitively. Competitive pricing allows CBT to bring services and products to the market more promptly, and at rates that make these products and services available to a greater number of customers.

Q. Which services offered by CBT are in greatest need of additional pricing flexibility?

A. CBT believes those services classified as Market Based in the Company's plan, such as ISDN, Centrex, and most enhanced features are in the greatest need of pricing flexibility. Without such flexibility, some customers are denied the benefit of those services.

Q. Why is it important to have flexibility in promotional offerings?

A. Customers benefit when competitors strive to serve their needs in ways that are both unique and cost effective. Because the product development cycle is intended to provide useful and innovative ways to meet customers' needs, it is often necessary

to initiate long-term customer educational efforts. By doing so, customers are provided with the right knowledge to make informed choices. Time limitations on promotions may deny customers the product understanding needed. An important element for any new product is the cycle time for bringing the product or service to market. CBT proposes that streamlined filing requirements for competitive services be allowed to reduce the delay in bringing the benefits of new services to customers.

Q. Why is it important that CBT have flexibility to offer different solutions to customers?

A. Customers are unique and therefore desire different types of service. CBT needs the flexibility that its competitors have to offer solutions. For example, a customer with teen-age children has different communication needs from single person households, empty-nesters, or work at home businesses.

Q. Why does CBT need additional freedoms to offer customized solutions including contracts to its customers?

A. Customer markets are diverse with increasing demand for total solutions that meets the customer's unique requirements. In the environment of new market participants, coupled with the Commission's "fresh look" provisions of the Local Service Guidelines, CBT should not be restrained in its ability to provide solutions that are not general tariff offerings to all customers. This is especially true for customers who may require special terms or conditions for service delivery associated with their purchases. NEC end user contracts may be effective on the day of signing, and

CBT seeks the same flexibility. CBT seeks the ability to respond to the needs of customers for discounts on bundled services, volume and term discounts, geographic discounts and cross product discounts.

Q. What evidence does CBT have that its customers want integrated service offerings, or packages as CBT refers to them in the Plan?

A. CBT conducted market research in 1995 that indicated that approximately one third of CBT's consumers would find a bundle of services somewhat or more attractive than purchasing services through separate vendors as they do today. For those who found it more attractive, the convenience of one bill or dealing with one company was an important reason for their interest. This CBT market perspective is being reinforced by national studies as well. The opening of the local telecommunications market will provide any number of market participants the opportunity to meet these needs.

Q. Why is it important to package services?

A. CBT trialed several limited packages in 1996, and customers reacted well to solutions that were customized to their needs. Customers have expressed a strong desire for one-stop-shopping and volume discounts. For example, many customers purchase multiple communications services, and expect that prices should be reduced as additional services are purchased. CBT has found that a "laundry list" of services may be confusing to consumers. By providing a packaged option, customers better understand the functionality they are buying. Finally, packaging enhances the

functionality of individual services.

Q. Why is CBT proposing unlimited packaging of regulated and non-regulated services?

A. By offering a packaged solution, regardless of whether services are regulated or non-regulated, customers can choose the best solutions for their needs. Customers are primarily interested in receiving the benefits of a solution at a value price, and packages can effectively meet that need. For example, customers who need voicemail and an automatic call distributor (ACD) could benefit from a packaged solution of a regulated and unregulated service. By combining multiple services under one name with one price, selection is less confusing.

Q. Why does CBT need the ability to withdraw a service offering as proposed in *Commitment 2000*?

A. As market needs change and better solutions arise, CBT should have the flexibility to withdraw existing services. Whenever a service is withdrawn, CBT informs existing customers of the timing and alternatives to the withdrawn service.

Q. Why does CBT need increased flexibility to implement Market and Technical trials and a streamlined new service introduction process?

A. With the advent of competition, all providers, including CBT, will need the ability to test new technologies and related products and services. Such testing insures that deployment of new capabilities reflects the real needs of the marketplace, and employs scarce capital resources in an economically efficient manner. The benefits to the public are obvious -- that customers receive the services they want at prices

that they are willing to pay. CBT should have the flexibility to initiate and conduct market and technology trials without notification to and without participation by its competitors. Such requirements only serve as an incentive to avoid market and technology trial, and deny consumers the benefits of such tests.

Q. Why has CBT requested additional pricing and associated marketing freedoms using the alternative regulation process?

A. The Commission's Local Competition Guidelines permit ILECs to petition the Commission for increased tariffing and pricing flexibility, and further state that ILECs such as CBT will be subject to the tariffing and pricing practices outlined in their alternative regulation plans. Therefore, the Commission has suggested this type of approach. CBT's *Commitment 2000* plan is intended to generate competitive parity as competition unfolds. *Commitment 2000* provides the Commission with a real opportunity to shape the competitive environment in CBT's territory to insure that all competitors, including CBT, have the opportunity to meet customer needs in a timely and efficient manner. For these opportunities to be realized, the Commission should allow CBT the pricing and marketing initiatives proposed in *Commitment 2000*.

Q. Why are reduced process requirements (e.g. a streamlined regulatory environment) important to CBT?

A. Competition heightens the need for a significant reduction in cycle time for many marketing related activities. Necessary Commission approvals are on the critical path

of such activities, and unnecessarily contribute to long cycle times in delivering services to customers. While it is important for the Commission to balance its need to insure services meet its guidelines, the Commission should recognize that competitors will game the review process to obtain marketplace advantages. Equal treatment of all providers goes far toward providing customers with innovation and creativity.

Q. What safeguards does CBT's plan include to prevent undesirable market behavior on the part of the Company?

A. CBT's plan is designed to include appropriate cross-subsidization and imputation tests. In addition, through the Local Competition Guidelines and the Commission's revised Minimum Service Standards, CBT will be maintaining both the necessary Consumer Marketing practices, complaint resolution processes and other service standards as required by the Commission. These safeguards and the development of efficient competitive markets, as Dr. Emmerson discusses in his testimony, will guard against undesirable actions on the part of the Company.

Service Classifications

Q. Why are service classifications needed?

A. Because individual services are subject to varying degrees of competition, defined service classifications are appropriate as a means to insure consistent regulatory treatment and provide CBT with the flexibility it needs in being responsive to customers. The degree of regulation for each service category, however, needs to be

consistent within the objectives of such regulation.

Q. How is CBT proposing that services be grouped for purposes of applying different regulatory treatment?

A. CBT contends that three service classifications are needed for the local competitive service environment to flourish and be responsive to customers. The three classifications include: Primary, Market Based and Carrier-to-Carrier.

Dr. Emmerson discusses the economic rationale for these classifications in his testimony.

Q. Why is CBT proposing a different classification structure for services than is outlined in the Commission's Alternative Regulation rules?

A. CBT believes that the current structure is not appropriate for local exchange competition and submitted a waiver to the Commission on December 30, 1996 that sought a departure from the current four cell structure. In its Entry of January 30, 1997, the Commission provided CBT with an opportunity to present its case for the three service classifications identified above.

Q. Why is it appropriate for CBT to classify its products into three service categories instead of the four cells of the Alternative Regulation Rules?

A. As Dr. Emmerson points out in his discussion of the shortcomings of the four cell structure, there is a need to recognize that the current structure may have been more appropriate for an environment which anticipated slower movement to competitive markets, where change may have been developing in a slow and orderly way,

primarily based on facilities based competition.

Movement of a product/service from a cell with more regulatory constraint and limited pricing and packaging freedom to a less restrictive one would occur as additional providers of that service came to the market, expanded their networks and acquired customers, and only after CBT had proven loss. The Commission was the final arbitrator of whether "competition" existed to a sufficient degree to allow for service movement to a less restrictive cell. Additionally, the standard of proof for "competition" worthy of movement to a less restrictive cell was vague and would prevent CBT from responding to competitive losses in a particular market segment or class of service.

The legislative and regulatory changes that have occurred in the last year have rendered the Alternative Regulation Rules for service classification overly-restrictive such that they are not consistent with a market where competitive service providers have a quick authorization track (as little as 60 days; 30 days for an existing NEC), no facility requirements, access to the entire CBT network for resale of existing service, and the ability to purchase individual network elements for combination with their own facilities.

In short, the criteria of "an adequate alternative . . . available from at least one other provider in the relevant market"⁹ is met when the first NEC has an approved Interconnection and Resale agreement with CBT. Further, the certification of

⁹Alternative Regulation Rules, II., D. "Cell 2" definition, page 3.

numerous NECs supports a movement of all services to the least restrictive category, or "fully competitive," once resale or unbundled network elements are available.

CBT has taken a progressive approach to service classification that recognizes the realities of the new market and the commitment the Company continues to make for the provision of basic telephone service available to all customers. The three (3) classification structures (Primary, Market Based and Carrier-to-Carrier) eliminates many of the cumbersome and unnecessary review and oversight aspects for services that are essentially competitive in this new environment, while recognizing the original rationale for grouping services subject to different levels of regulation. The proposed service classifications also create a category (Carrier-to-Carrier) for services offered on a resale or unbundled basis to NECs, that avoids confusion with similar "retail" services. These services are not defined in the current four cell structure.

Q. How will reclassification of services be handled under CBT's proposal?

A. Reclassification has been proposed in a more streamlined fashion, as is outlined on page 84 of the Application. This proposal reduces the time necessary to respond to competitive market conditions.

Q. Does the current cell structure provide CBT with the necessary flexibility to manage its products and services?

A. No. CBT accepted the current service classification structure with the belief that it would have the necessary flexibility to manage its product offerings to the benefit of

its customers and their needs. However, CBT's attempt to move specific products to a less restrictive cell in response to the appearance of competitive providers for that product, has been unsuccessful.

Q. Can you provide an example of these unsuccessful attempts to gain additional flexibility under CBT's current alternative regulation plan?

A. Yes. CBT requested a shift in the classification of certain portions of the PRIME Advantage service from Cell 1 to Cell 3 on May 30, 1996, in Case No. 96-04-TP-ATA. The Commission denied both the initial request and the Company's Application for Rehearing, suggesting that certain elements of the PRIME Advantage service were never envisioned to move beyond Cell 1, even though the service was appropriately considered a new service and should have been automatically placed in Cell 3 under CBT's alternative regulation plan. The rationale the Commission gave for this decision was that those components of the service that, in the Commission's view, remained "monopoly access services", were not candidates for Cell 3 treatment.

Q. Isn't CBT really suggesting that the standards for service classification should be modified?

A. Yes. CBT suggests that a new standard is appropriate for the dramatically different market conditions that will exist during the life of the plan. This standard is reflected in CBT's classification of services into Primary, Market Based and Carrier-to-Carrier categories. That is, an objective test is met for competitive classification

when alternatives exist for customers and that any application of market share tests such as those traditionally relied upon by the Commission to support the existence of a "monopoly" condition are no longer an appropriate standard. Dr. Emmerson discusses this aspect in his testimony, and suggests why other standards are now more applicable.

Q. Have you reviewed other price regulation plans that this Commission has approved?

A. Yes. Ameritech currently operates under the terms of an alternative regulation plan that originally took effect in 1994. In this plan, a form of alternative regulation and the four cell structure interact, but create confusing and complex administrative requirements that are simply unnecessary inefficiencies to include in CBT's plan.

First, services subject to price regulation are spread across Cells 1, 2, 3 and 4.

CBT's plan would apply price regulation only to the Primary Services Category.

Second, Ameritech's plan does not include any classification of mandated wholesale services such as unbundled elements and resale, therefore it falls short of being a comprehensive classification. Finally, the administration of the price regulation

indices is more complex than need be the case due to the multiple layer tests required for service pricing -- first at the cell level, then at the service level within the various service baskets. CBT's service classification proposal eliminates the several problems inherent in the Ameritech plan and achieves a level of simplicity that benefits providers, regulators and competitors.

Q. Why is a separate category for Carrier-to-Carrier services needed?

- A. The Telecommunications Act of 1996 and the Commission's local guidelines have defined a set of obligations that ILECs have with regard to NECs. Since these obligations are in the nature of carrier-to-carrier services and subject to their own set of rules, CBT has grouped these services together as a distinctly separate classification. This approach allows a comprehensive classification structure for these services, is administratively efficient and avoids confusion as to the rules that apply when pricing these services. In addition, price regulation will not apply to these services under CBT's proposal.

VI. Market Pricing Proposals

Revenue Neutrality

- Q. What is the total revenue impact of all of CBT's initial pricing changes put forward as part of the *Commitment 2000* plan?
- A. Based on the quantities and revenue for the Commission approved test year and date certain, the sum total of CBT's proposed pricing changes is revenue neutral. That is, no increase in CBT's Ohio regulated intrastate revenues would be seen from their test year levels. Specifically, the net revenue change under CBT's plan is a decrease of \$3,571.82 for the test year based on date certain rate quantities.

Rate Rebalancing

- Q. Please briefly describe CBT's rate rebalancing proposal.
- A. CBT is proposing an initial rate adjustment, to be effective upon Commission

approval of the Plan and its various components, that will increase residence access line rates and generally decrease non-residence access line rates. After the initial rate adjustment, residence access line rates may increase 12 months and 24 months after the approval date by no more than the proposed cap amounts with commensurate revenue decreases for other services. After the initial two years, residence access lines as well as other Primary Services will be subject to the Primary Services pricing rules which would limit price changes in the aggregate for all Primary services as described by Mr. D.I. Marshall.

Q. Why does CBT need to rebalance its rates at this time?

A. CBT's proposed pricing plan reflects the need to move toward elimination of existing rate subsidies that are neither appropriate in a competitive environment nor conducive to other competitive initiatives such as resale and unbundling. Today, CBT's rates for most non-residence flat rate access lines are almost three times greater than for equivalent flat rate residence lines, in large part because of these implicit subsidies. The requisite dynamics of an efficient competitive market make this differential unsustainable because competitors can offer the same service without the burden of these historical subsidies. Therefore, CBT is proposing to decrease non-residence rates and increase residence rates to reduce the subsidies and strive to attain efficient pricing. Both Dr. Taylor and Dr. Emmerson provide detailed discussions regarding the social and economic rationale for rebalancing in their testimonies.

Q. Does CBT's rebalancing proposal reflect market conditions?

A. Yes. The proposed rebalanced rates are a necessary prerequisite to CBT's goal of offering products and services whose prices are more directly set in accordance with market value dynamics and efficient markets. The effect of rebalanced rates on market efficiency and consumer welfare is examined in detail in Dr. Emmerson's and Dr. Taylor's testimonies. From a market perspective, rebalanced rates more closely represent market based pricing based on value to the customer. These changes provide a reasonable transition away from subsidization for customers in the Cincinnati area by establishing appropriate product relationships with market driven prices. Revenue decreases for other services reflect the further elimination of the implicit subsidies and thus allow for efficient pricing of services to customers.

Q. How does CBT's rebalancing proposal affect CBT's proposed wholesale services for New Entrant Carriers (NECs)?

A. Reducing these subsidies also supports an efficient market for wholesale services provided either through resale or unbundling. CBT's proposed resale rates are established based on the net avoided cost for providing wholesale services. Applying this discount to a subsidized service will simply further subsidize the service for the competitor, giving the competitors little incentive to install facilities to provide this service and possibly depriving customers of cost savings, innovations or other efficiencies that could be derived through additional competitive response. For unbundled services, CBT's proposal provides a means to move toward

compulsory unbundling as required by the FCC rules and Commission guidelines.

As discussed later in my testimony, CBT has requested a waiver to apply a rebalancing surcharge until such time as rates are rebalanced or universal service funding makes rebalancing unnecessary. Under CBT's rebalancing proposal, as rates are rebalanced, this surcharge would be concurrently reduced.

Q. Does CBT's rebalancing include changes in price relationships other than between basic residence and nonresidence lines?

A. Yes. As I will discuss later in my testimony, CBT is proposing several other rate changes as part of its rebalancing proposal. These changes maintain or establish desired rate relationships between business services, including the rebalanced basic exchange services. Previous, regulatory-driven pricing, that included rates established to provide subsidies, did not taken into account value pricing or relative product positioning which are important in a competitive market.

Also, as mentioned during the discussion of market needs, customers expect CBT's products to be priced in such a way that as they move from basic business services to more advanced, complex solutions, that the prices of these products relative to each other make sense. As competitive alternatives grow, this will become increasingly important as customers compare competing suppliers' prices.

Q. Would CBT's plan preclude the need for universal service?

A. No. Even with the proposed rebalancing, USF is an issue. For Bands 1 and 2, raising the rates to the cap amounts would achieve the competitive requisite price

floor for residence access lines at the end of year two. The proposed residence access line rates in Band 3 are market based rates and are set so that the differences in rates for a service are the same across all rate bands. To the extent universal service funding becomes a reality, Band 3 rate levels could be impacted.

Q. What is the rationale for the proposed residence access line rates in Band 3?

A. The proposed Band 3 residence rates were set based on objectives of maintaining reasonable rates for local service relative to current levels over the life of the Plan. CBT believes these high cost, low density areas must be addressed through universal service at the state and/or federal level.

Q. How will universal service reform affect CBT's rebalancing proposal?

A. The proposed pricing plan allows for any opportunity that either the PUCO or FCC would provide for the continuation of these implicit subsidies either through access reform or universal service funding (USF). To the extent that USF is addressed, residence rates could be accordingly adjusted and additional rebalancing may not be necessary. If USF is not sufficiently addressed, additional rate increases, in particular residence Band 3 access line rates, may be needed.

Q. How did CBT determine the cap amounts?

A. CBT developed the caps by balancing three different objectives. First, the caps are intended to allow residence rates to be rebalanced to remove the implicit subsidies in the rates or to incorporate any universal service funding plan that precludes all or part of the rebalancing. This objective supports market based pricing with

competition. Second, CBT desired a smooth transition that would make the changes less burdensome to consumers. Thus, CBT is proposing that future increases be limited, and that the maximum increase be similar to the initial increase proposed in this Plan. Finally, CBT tempered these objectives with its desire to support universal service.

Q. What other options did CBT consider for rebalancing its rates?

A. CBT identified two general alternatives based on the timing of the rebalancing and the ability of the rebalancing to reflect market conditions. The first alternative was to immediately increase rates beyond those proposed in this Plan to remove a much larger amount of the implicit subsidies. The second alternative was to establish specific, pre-determined revenue neutral rate adjustments that would be applied in stages at pre-determined points in time.

Q. What is CBT's position on the first option to rebalance rates so that most of the implicit subsidy is removed immediately?

A. CBT does not believe this option is in the interest of consumers. Under this option, residence rates would immediately rise to levels similar to the maximum levels allowed at the end of year two under the caps proposed in this plan with corresponding decreases to nonresidence line' and trunk rates and other service rates to maintain revenue neutrality. Such an increase would create rate shock for customers. With the Commission's approval, a gradual transition is fairer to customers and allows for changes due to USF.

Q. What is CBT's position on specific pre-determined rate changes?

A. This option has significant disadvantages. It requires CBT to determine what the appropriate rates levels will be over the term of the Plan. This task is complicated by the high levels of uncertainty regarding the level of competition, Universal Service Solutions, access reform, changes in demand, changes in technology, changes in costs and new service capabilities. Pre-determined rates also offer little flexibility to react to changes made necessary by the new environment.

Consumer and Business Market Pricing Changes

Q. Please describe the changes that CBT is proposing to its product and service pricing that are in addition to CBT's plan to rebalance residence and non-residence access line rates.

A. CBT is proposing several pricing changes to move into the new competitive market. In general, these changes simplify CBT's rate structure, respond to customer demand and establish a more consistent transition path between CBT's services. Many of these changes are directly related to CBT's rebalancing proposal and reflect rational pricing for CBT's services.

Q. What products and services are impacted by these price changes?

A. The changes proposed by CBT include the following: replacing the current rate groups and base/locality areas with rate bands defined by wire centers; expanding the flat rate local calling area to include all of CBT's Ohio customers; eliminating measured service usage allowances, hotel service, joint user listings and semi-public

service; establishing a common charge for basic exchange service changes, such as changing a telephone number; incorporating TouchTone into basic exchange service; separating the hunting feature from the monthly access line rate; decreasing DID (Direct Inward Dialing) rates for analog trunk terminations and Prime/Trunk Advantage services; decreasing most ISDN rates; restructuring Centrex by expanding and revising Centrex 2000 and withdrawing CBT's other Centrex and ESSX services; decreasing Custom CallingSM and Custom Calling PLUSSM rates; eliminating the Directory Assistance exemption for hotels and hospitals; converting conduit occupancy rates to an individual case basis; converting alarm services to special access; and decreasing the terminating Carrier Common Line Charge.

Q. Please explain CBT's proposed bands for basic local exchange service.

A. CBT is proposing three bands for basic local exchange service. These bands are defined by wire centers (and thus NXXs) and were established based on the access line densities. Under CBT's proposal, the rates in each band reflect the density, and thus the costs, associated with serving each area, and all customers within the same wire center will pay the same amount for the same service. Further, this structure recognizes that competition may vary geographically and provides flexibility to deaverage rates in response to competition. In addition, CBT is attempting to simplify its rate structure and reflect current geographical rate groups.

Q. What are the advantages of CBT's new bands compared to CBT's current rate structure of Rate Groups with base and locality areas?

- A. CBT's current rate structure does not reflect current service availability nor does it reflect how services are provided today. CBT's current Rate Groups were designed with Local Area Service (LAS) and Extended Area Service (EAS) options for most exchanges. With LAS, the local calling area generally consisted of the originating exchange and some times one neighboring exchange. With EAS, the local calling area could be expanded to include most of CBT's territory. Because of declining subscribership and the introduction of measured service, LAS service was grandfathered in 1985 and eliminated in CBT's Ohio territory by 1992 for all but the Hamilton, Reily and Seven Mile central offices. As a result, six of CBT's nine rate groups in Ohio are now vacant. CBT is proposing to eliminate the remaining LAS service as part of this Plan. With this change, one more rate group would be vacant, and the only difference in the remaining two rate groups would be geography. Specifically, the Cincinnati Exchange would comprise one Rate Group and CBT's eleven other Ohio exchanges would comprise the other Rate Group. This latter Rate Group would be further divided into base and locality areas. While these current geographic definitions do, to a limited degree, reflect access line density, the base/locality areas have not been updated since 1982, and the current structure does not reflect the growth in fiber optics, digital loop carrier systems and optical remote modules. The proposed bands are defined by wire center to better reflect the current access line densities and the type of equipment typically used to provision lines relative to the density.

CBT's banding proposal also simplifies CBT's rate structure by providing like-pricing for similar geographic areas. In particular, customers with the same NXX will pay the same amount for a service. Today, the base/locality difference results in customers within the same NXX paying different rates for basic exchange service. Finally, defining rates by wire centers better provides for market based pricing because this structure is more adaptable to deaveraging rates than the current rate structure.

Q. Why is the ability to deaverage rates by geography necessary?

A. The ability to deaverage rates by geography will allow CBT to respond as competition selectively enters CBT's market at different times and places. For example, competitors may first focus on areas with high concentrations of businesses, such as downtown or an industrial park. To be able to compete in these areas, CBT would need the maximum flexibility to respond to price changes, packages and promotions offered by a competitor. This could include reclassifying Primary Services as Market Based or detariffing Market Based services to allow CBT the same flexibility and the same options as its competitors. Geographic deaveraging supports differentiation of high cost areas from lower cost areas, since it reflects the cost of doing business as less densely populated areas are generally more costly to serve. Requiring CBT to average rates for basic access service throughout its entire service area would allow NECs to exploit rates that do not reflect the economics of providing service. Competitors could simply choose to provide service

closer to cost in the low cost areas and choose not to serve customers in high cost areas. CBT's proposed rate bands eliminate arbitrary pricing variations, and because the bands are defined by a smaller geographic area, can readily reflect changes in demand, changes in growth or changes in competition.

Q. Will any customer's local calling area change because of the new bands?

A. No. CBT is proposing to expand the flat rate local calling area for its customers, but the change in local calling area is independent of the new bands.

Q. Please explain CBT's proposal to expand EAS and to eliminate toll calling within CBT's Ohio and Indiana territory.

A. CBT's proposed local calling area expansion is a continuation of CBT's expansion of EAS so that all of CBT's customers have toll free calling to each other. CBT is proposing to add the Seven Mile exchange to the Cincinnati Metropolitan Area Exchange Area so that the Seven Mile exchange's local calling area would be expanded to include all of CBT's exchanges and all of CBT's exchanges would have local calling to Seven Mile. Additionally, the remaining LAS customers in Harrison and Reily, Indiana and Hamilton and Reily, Ohio would be converted to EAS. These changes would eliminate toll calling within CBT's Ohio and Indiana territories.

Q. Do these proposed local calling area changes respond to market demand?

A. Yes. Seven Mile is the only CBT exchange in Ohio, Indiana or Kentucky that does not have the ability to call the Cincinnati exchange as a flat rate local call, and

Seven Mile customers have twice filed petitions to gain flat rate local calling to the Cincinnati Exchange. Seven Mile customers have also filed petitions to expand their flat rate local calling area to include other CBT exchanges such as Clermont and Shandon. The change in Hamilton and Reily would eliminate a service that is steadily eliminating itself and provide a smooth transition for LAS customers.

Approximately 11% of the lines in Hamilton and Reily have LAS, and this percentage is declining. By changing all of these customers to EAS at once, CBT can ease the transition by enabling these customers to keep their current telephone numbers. Today a customer who changes from LAS to EAS must change telephone numbers because the NXX is used by the switch of a customer calling to these areas to determine if the call is local (EAS) or toll (LAS).

Q. How would CBT's proposed residential access line increase differ for LAS customers if their local calling area did not expand?

A. A rate increase would still be necessary for residence customers because the need to rebalance residence rates does not change with LAS. The only difference between LAS and EAS is the amount of local usage and this has little bearing on the amount of subsidy. Thus, the residential rates for LAS lines would be similar to the proposed EAS rates. The main difference for rate rebalancing in LAS areas is that nonresidence rates in LAS areas are much less than the corresponding EAS rates and often provide little or no universal service support. Thus, nonresidence rates may increase in LAS areas with rebalancing. Finally, any increase in moving from LAS

must be considered in light of the additional value CBT's expanded local calling area provides to current LAS customers and to EAS customers calling LAS customers as well as the decrease in toll charges that will directly offset all or part of the proposed increase.

Q. Please explain CBT's proposal to eliminate measured service usage allowances.

A. CBT is proposing to grandfather and eliminate after one year all measured service options with usage allowances except for Telephone Service Assistance (TSA). Usage allowances will also be grandfathered for TSA, but TSA customers with usage allowances may keep their service for as long as they remain on TSA. These changes will simplify CBT's rate structure, make service comparisons easier for customers and help facilitate resale of CBT's services by NECs. CBT's measured service usage rate structure includes time of day and mileage for both initial and additional minutes. CBT's measured service allowances are for a fixed dollar amount so there is no fixed amount of time, in minutes, that is included within an allowance. Because the number of minutes under the allowance varies depending on the customer's usage, some customers are confused by these usage allowances. This same confusion is likely to carry over if these services were to be resold, with discounts, by NECs. Thus, CBT is proposing to simplify its rates by eliminating these usage allowances.

Today, all of CBT's non-residence measured service lines and trunks, except hotel trunks, have usage allowances. CBT is proposing two new non-residence measured

service offerings without allowances, one for lines and one for trunks, to replace these current offerings. Thus, non-residence customers with little local usage may be able to reduce their bills because they will no longer pay for usage allowances that are not needed. Residence customers currently have the option to purchase measured service without an allowance, so CBT's plan will simply eliminate the residence measured service offering with an allowance.

Finally, CBT's plan will make measured service available throughout CBT's entire Ohio territory. Today, measured service is not offered in the Seven Mile Exchange because measured service is only available in EAS areas. CBT is proposing to offer measured service in Seven Mile concurrent with the expansion of the local calling area. Measured service will provide Seven Mile customers, as well as the LAS customers in Hamilton and Reily, with a lower priced alternative to flat rate service with the expanded local calling area.

Q. You mentioned that hotel service is different from CBT's other non-residence measured service offerings. How is CBT proposing to change its hotel service?

A. CBT is proposing to grandfather hotel service and to eliminate it after one year, the same as CBT is proposing for its other nonresidence measured services. This change is designed to give hotel owners the same options as CBT's other business customers. Today, hotel guest lines must be provisioned using measured service. With this change, both flat rate and measured rate service will be available as it is for other business customers. Hotel owners may benefit from this change if the flat

rate option either lowers their rates or allows them to provide better service to their customers.

CBT is also proposing to eliminate the Directory Assistance (DA) exemption for hotels and hospitals. Again, this change treats hotels and hospitals the same as other nonresidence customers who must pay \$0.44 for each DA call. Effectively, the separate DA charge disaggregates DA from the access line. If the DA charge for hotels and hospitals were not separate, customers who purchase trunks but do not receive this exemption would be subsidizing the hotels' and hospitals' DA usage.

Q. Please explain CBT's proposal to eliminate joint user service and semi-public service.

A. CBT is proposing to grandfather both of these services and eliminate them within one year. Joint user service and semi-public service are both older services with limited demand and readily available alternatives. Joint user service can be replaced by an additional access line and/or an additional listing, and if only an additional listing is desired, customers will pay less than they pay for the joint user service. Semi-public service can be replaced by either a COCOT line or a nonresidence access line, and is subject to elimination regardless of CBT's *Commitment 2000* filing. CBT's pending filing in PUCO Case No. 96-1310-TP-COI regarding Pay Telephone Services proposes to eliminate semi-public service. Additionally, the FCC order deregulating pay phones may supersede CBT's proposed semi-public changes.

- Q. Please explain CBT's proposed changes for the non-recurring charges associated with changes to the basic access line.
- A. CBT is proposing one common charge, \$12.25, for changes to the basic exchange line including changing a telephone number, changing between flat and measured service, changing between residence and nonresidence service and changing billing arrangements. This charge will be the same for residence and nonresidence customers. This rate proposal is part of CBT's overall rate rebalancing proposal and simplifies CBT's rate structure so that it can be better understood by customers. Eliminating the difference between residence and nonresidence both supports rebalancing and returns CBT to the rate structure it had prior to its current alternative regulation plan. In addition to these nonrecurring rate changes, CBT is proposing to merge the residence non-recurring charge with the TouchTone nonrecurring charge.
- Q. How is CBT proposing to incorporate TouchTone into the basic exchange rate?
- A. CBT is proposing to equip all lines with TouchTone as part of the rebalanced rates. CBT's proposal to incorporate TouchTone into basic exchange service reflects both the demand for the service and the general movement to consider TouchTone as part of basic service. Approximately 90% of CBT's residence lines and 95% of CBT's nonresidence lines subscribed to TouchTone as of the date certain. Further, the non-recurring charge for residential TouchTone will be added to the access line establishment charge to maintain the current typical charge that customers pay for a

residence access line today. The nonresidence TouchTone nonrecurring charge is proposed to be eliminated as part of the rebalancing between residence and nonresidence rates.

Q. Will CBT customers with rotary telephones be required to change equipment as a result of CBT's proposal?

A. No.

Q. Please explain CBT's changes regarding hunting service.

A. Today, the hunting feature is combined with the basic monthly exchange service rate for analog nonresidence lines, while separate hunting charges exist for ISDN and Centrex services. Hunting service is only tariffed for nonresidence lines. CBT proposes to disaggregate hunting from the analog access line, thus providing a new optional feature. Thus, hunting would be treated similar to other optional offerings, and can be priced and packaged based on market demand. The proposed hunting rates are also part of CBT's overall rebalancing plan to rationalize relative pricing of CBT's services. Finally, CBT is proposing to add hunting rates for residence customers.

Q. Does CBT's proposal to offer hunting to residence customers respond to market demand?

A. Yes. CBT's Business Office has received many calls from customers inquiring about hunting service for their residence lines. This market demand is a natural outgrowth of the surge in additional access line subscriptions and work at home

activity.

Q. Please explain CBT's proposed Centrex and ESSX changes.

A. CBT is proposing to restructure and generally increase its Centrex 2000 line rates and to eliminate its other Centrex and ESSX services. Specifically, Centrex 2000 will be expanded to accommodate customers with as few as 4 lines. Today, Centrex 2000 has a 20 line minimum. CBT is proposing to simplify its rate structure by combining exchange access into the line feature rate element and establishing a new hunting rate structure. Centrex 90 and ESSX will be grandfathered upon the effective date of this plan. Centrex CO, which is already grandfathered, and ESSX will be withdrawn six months after the effective date, and Centrex 90 will be withdrawn one year after the effective date. Month-to-month customers of these services may keep their current services until the date of withdrawal, while customers with contracts or variable term payment periods may keep these services until their contract or plan expires. Centrex CO, Centrex 90 and ESSX customers may transfer to Centrex 2000 without incurring termination liabilities or certain non-recurring charges.

Q. How do CBT's proposed changes respond to the market?

A. CBT's proposed changes will reposition Centrex service relative to CBT's other services, will simplify CBT's rate structure, and provide additional options for some customers. Today, CBT's Centrex rates are often below the rates for an equivalent access line. These changes will adjust Centrex rates so that they are more

comparable to similar access line services. CBT's proposal will simplify CBT's rate structure by providing a consistent pricing plan over all line sizes, thus allowing customers to more easily add to or customize their current systems. Today, CBT has four different types of Centrex service with two types based on older technology. Expanding Centrex 2000 to replace the other services will eliminate duplicate service arrangements and provide consistent pricing to all market segments. Smaller business customers will also gain greater flexibility to design digital services. Finally, as I discussed in the resale section of my testimony, these changes are necessary for CBT's Centrex pricing to be sustainable in a resale environment.

Q Are other market pricing adjustments indicated as a result of CBT's rebalancing plan?

A. Yes. As discussed in the Rate Rebalancing section, some of the proposed changes are directly related to CBT's rebalancing proposal. Specifically, CBT's proposal to reduce analog DID (Direct Inward Dialing) Trunk termination charges, DID channel rates for Prime Advantage and Trunk Advantage, and decreasing most ISDN rates are part of the rate rebalancing as they are designed to maintain or establish desired rate relationships between CBT's business services.

The proposed decreases in Custom CallingSM rates, Custom Calling PLUSSM rates and the terminating Carrier Common Line Charge (CCLC) are also part of the overall rebalancing proposal. The Custom CallingSM and Custom Calling PLUSSM changes eliminate the differences between residence and non-residence rates and benefit

consumers by lowering the rates. The Carrier Common Line reduction removes subsidies and further decreases CBT's intrastate terminating CCLC rate toward the interstate rate.

Q. Please explain any other rate changes that CBT is proposing as part of *Commitment 2000*.

A. CBT is proposing two additional changes that provide consistency in rates and respond to market conditions. First, CBT is proposing to grandfather alarm services and convert them to special access. The services CBT provides to alarm companies are designed no differently than comparable special access circuits, and as part of CBT's current Alt Reg Plan, all of CBT's local private line services other than alarm services are being converted to special access. Converting alarm circuits to special access simplifies CBT's rate structure by eliminating duplicate rate structures for the same service. Second, CBT is proposing to grandfather the current conduit occupancy rate and replace it with individual case basis rates. This change will allow CBT to price services based on customer demand. Conduit occupancy has limited current demand and the requirements vary significantly by customer. Thus, because no standard or average appropriately represents existing or future demand, CBT is proposing to develop rates based on the customer specific demand and requirements.

VII. Carrier-to-Carrier Services to Support the Competitive Environment

Q. Please describe CBT's proposed Carrier-to-Carrier Services Tariff.

A. CBT's Carrier-to-Carrier Tariff applies to New Entrant Carriers (NECs) who purchase wholesale services from CBT either on a resale or unbundled basis, or who interconnect with CBT for the transmission and routing of telephone exchange service. The Carrier-to-Carrier tariff is divided into the following four sections:

General Regulations which includes definitions, general liability, provision and use of service regulations, deposits, payment arrangements, credit allowances, branding and billing;

Resale Local Service which includes the services available for resale at wholesale rates and the wholesale rates for those services;

Network Interconnection which includes a description of the process to establish network interconnection between the facilities of CBT and certified NECs; and

Unbundled Network Elements which includes pricing regulations and an overview of the process to establish unbundled service rates between CBT and certified NECs.

CBT's proposed Carrier-to-Carrier Tariff necessitates modification of the requirements of the FCC Interconnection Order relative to resale and unbundling and would require the approval of a 2% suspension request of certain requirements of Section 251(b) and (c) of the Telecommunications Act of 1996. Specifically, the

proposed tariff would require: (i) temporary suspension of the requirement to charge prices for unbundled network elements at cost, without regard to end user classification (i.e. residence/non-residence), until universal service reform provides for the recovery of subsidies implicit in current retail rates or retail rates are rebalanced as proposed in the plan; (ii) suspension of the resale requirements to permit CBT to sell enhanced services or value added services as separate options rather than as part of the basic port functionality, and to price these services the same whether sold as resale services or unbundled services; (iii) modification of the FCC rule that allows NECs to combine unbundled elements provided solely from CBT in order to provide end to end service; and, (iv) modification of certain other resale guidelines to permit limited resale restrictions.

Q. Why is CBT requesting these suspensions/modifications?

A. Each of these suspensions and/or modifications are necessary to assure fair and equitable competition in the Cincinnati market. I will address each one specifically later in my testimony as they relate to specific parts of the Carrier-to-Carrier Tariff.

Resale

Q. What services are available for resale in CBT's Carrier-to-Carrier Tariff?

A. CBT's tariff includes a wide variety of exchange services, both analog and digital; optional features such as Custom Calling/Custom Calling PLUS; directory and listing services; operator services and intraLATA toll. A complete list of the services and their rates is shown in Volume 1, Exhibit 2, Services Matrix and Rate

Comparison, pages 255 through 289.

Q. Are all of CBT's retail services offered for resale in the Carrier-to-Carrier Tariff?

A. No. As stated in CBT's Application and consistent with CBT's suspension/modification request to permit limited resale restrictions as a Company serving less than 2% of the nation's access lines, the resale section of the Carrier-to-Carrier tariff does not include customer specific contracts, services which are already sold on a wholesale basis, services discounted to meet social goals, grandfathered services and services with minimal demand.

Q. Why is CBT requesting that customer specific contracts not be available for resale?

A. Most of the sales and marketing efforts for a customer specific contract are expended prior to and for a short time after the sale. Once the contract is in place, these costs are sunk and would not be avoided if the contract were resold. Thus, a net avoided cost discount is not justified.

Q. Please describe the services that are sold on a wholesale basis that are not included in the resale section of the Carrier-to-Carrier Tariff.

A. Services that are provided on a wholesale basis, e.g. access services, are not retail services subject to a net avoided cost discount. These services are currently provided to service providers, such as interexchange carriers, for the origination and termination of interexchange traffic.

Q. Why are services that are discounted to meet social goals not included in CBT's Carrier-to-Carrier Tariff?

A. CBT believes that if the Commission chooses to mandate discounts to support social goals, e.g. Lifeline service, school/government discounts or discounts for toll calls through the Telephone Relay Service, that these mandates should apply equally to all retail providers. Requiring only CBT to fund these mandates by reselling these services at a discount shifts the burden for these discounts solely to CBT and its end users. This would create inefficient competition by placing a burden on CBT that would not apply to competitors who resell CBT's service. The effects of regulatory asymmetry and the need for efficient competition are discussed in detail in Dr. Emmerson's testimony and in Mr. Monson's testimony.

Q. Why is CBT not including grandfathered services and services with minimal demand in the resale section of its Carrier-to-Carrier Tariff?

A. Grandfathered services are legacies of obsolete and/or low demand services from a monopoly environment and usually have substitutable services available. Additionally, grandfathered services are not marketed and thus have little, if any, net avoided cost. CBT has excluded services with minimal demand, e.g. mobile marine service, from its Carrier-to-Carrier Tariff because it is unduly burdensome to invest the time and resources necessary to resell these services until a potential reseller establishes a sufficient demand to justify the costs to implement resale.

Q. Is CBT proposing any other restrictions on services available for resale?

A. Yes. As part of its request for suspension/modification, CBT believes that it should be permitted to exclude equipment or software readily obtainable from other sources

from resale, that the promotions rule should be modified to exclude from resale discounts on any promotion offered for no more than 90 days within a six month period, and that Centrex 2000 resale should be deferred until the initial retail pricing and structure changes proposed in this plan are effective.

Q. Why does CBT believe equipment and software readily available from vendors other than CBT should be excluded from resale?

A. In order to remain a viable competitor, CBT must be permitted to differentiate itself in the market like every other competitor. One way to accomplish this goal is to build innovative retail services, possibly using value-add components that are readily available to all competitors in the market. If CBT must resell these services, including the components that can be readily purchased from other vendors, CBT cannot differentiate its products. CBT would then have little incentive to develop creative new services, thus denying some of the key benefits of competition to consumers. CBT would thus be unfairly handicapped because it would be the only competitor unable to innovate without sharing the benefits of its innovation with all other competitors.

Q. Why is CBT requesting the promotions rule be modified to exclude from resale discounts any promotion offered for no more than 90 days within a six month period rather than within a one year period?

A. Periodic promotions are another means of product differentiation. CBT submits that a 12 month limit is unnecessarily restrictive, limiting CBT from developing long

term marketing efforts that are intended to educate customers on the benefits of new services. Obviously, CBT's competitors have no such limitation. If a promotion were successful, CBT needs the flexibility to repeat the promotion within a reasonable time frame. If CBT were required to resell its repeat promotion at a discount within the one year period, competitors would benefit from the promotion while assuming no risk. The entire promotional discount would be funded by CBT for its competitor through CBT's reduced resale rate. Thus, CBT would be significantly disadvantaged vis-a-vis its competitors, and would not be incented to offer promotional pricing to its retail customers, thus denying consumers the benefits of competition.

Q. Please explain CBT's proposal regarding the resale of Centrex 2000.

A. As I discussed in the market pricing changes portion of my testimony, Centrex rates are part of CBT's overall rebalancing proposal because CBT's current Centrex rates are often below the rates for an equivalent access line. CBT has included Centrex 2000 in its proposed Carrier-to-Carrier Tariff based on the proposed Centrex 2000 rates and rate structure. However, CBT does not believe resale of Centrex service without these proposed changes is appropriate because it results in artificial rate differences compared to business basic exchange service.

Q. If a NEC requested to purchase for resale certain retail services that are not included in the resale section, how would CBT respond?

A. Upon a Bona Fide request by a NEC, CBT would consider reselling certain services

which are not included in the resale section due to limited demand if the NEC's forecasted demand in the Bona Fide request justified the expense of resale, and the price was compensatory.

Q. How did CBT determine the rates for its resale services in its Carrier-to-Carrier tariff?

A. The proposed resale rates, except for residence access lines, were set at a 9.9% discount from the retail rates proposed in this proceeding based on CBT's net avoided cost analysis. As addressed in Mr. D.I. Marshall's testimony, residence access lines receive a smaller discount that varies by service and band.

Q. How will CBT's resale rates change to reflect changes in the retail prices?

A. The resale rates for residence service in CBT's Carrier-to-Carrier Tariff will be updated concurrent with changes in CBT's corresponding retail rates as they are rebalanced. CBT will adjust the resale rates for other services using the prevailing net avoided cost discount as it is periodically updated.

Network Interconnection and Unbundling

Q. Please describe CBT's tariff proposal for Network Interconnection with NECs.

A. CBT agrees to negotiate, in good faith, for network interconnection with a NEC when a Bona Fide request is received. The tariff also identifies specific information which must be provided with the Bona Fide request, as required by the Commission's Guidelines.

Q. Why did CBT propose that rates terms and conditions for network interconnection be established through negotiations?

A. CBT believes the negotiation process is more appropriate for setting rates. CBT is working to understand the NECs' individual requirements through negotiations including technical, provisioning and coordination issues. The negotiation process removes some of the uncertainty regarding establishing a new service and assures that the rates appropriately reflect the NECs' demand.

Q. Please explain CBT's proposal for pricing of unbundled network elements.

A. As with network interconnection, CBT proposes that rates, terms and conditions be established through negotiations. Additionally, the tariff includes three regulations related to CBT's 2% suspension request of certain requirements of Section 251(b) and (c) of the Telecommunications Act of 1996. Specifically, the tariff (i) includes a transitional rebalancing surcharge that will apply to unbundled loops until universal service reform provides for the recovery of subsidies implicit in current retail rates or retail rates are rebalanced as proposed in this Plan, (ii) states that enhanced services or value added services will be provided as separate options rather than as part of the basic port functionality, and that the price of these services will be the same whether sold as resale services or unbundled network elements, and (iii) includes a provision that NECs may not combine unbundled elements provided solely by CBT in order to provide end to end service.

Q. Why did CBT propose that rates, terms and conditions for unbundled network

elements be established through negotiations upon a bona fide request?

- A. As with network interconnection, the negotiation process removes some of the uncertainty regarding establishing new unbundled network elements and assures that the rates appropriately reflect the NECs' demand. CBT will offer the seven minimum unbundled elements, but the negotiation process is needed to determine other demands. Additionally, CBT's unbundled service rates will be directly impacted by its request for suspension and/or modification under the 2% rule. If these waivers are not granted, CBT would need to further rebalance rates to remove the subsidies that create pricing anomalies for basic exchange services that can be exploited by potential competitors.

Q. Why is CBT proposing a transitional rebalancing surcharge?

- A. Historically, nonresidence lines have provided a high contribution to help keep residence access line prices low. The net avoided cost resale pricing rules will retain part of this contribution while TELRIC pricing of unbundled services would eliminate this contribution. The result of TELRIC pricing is a significantly lower rate for the unbundled elements in total than for the resale service. This creates an arbitrage opportunity for competitors to purchase unbundled services, sell these services for less than CBT's comparable retail services and thus keep part of what was the contribution for universal service as profits for themselves. To prevent this uneconomic competitive advantage, CBT proposes to apply this surcharge so that contribution levels are consistently maintained, or CBT must immediately further

rebalance rates to further reduce the implicit subsidies. This would result in significant, immediate rate increases for residence access lines which CBT believes would not be in the public interest and would not be acceptable to CBT's customers in a competitive environment.

Q. Why is the regulation prohibiting the combination of unbundled elements to recreate a service needed?

A. Under the FCC's local competition rules, NECs are allowed to combine unbundled service elements. CBT agrees with the Commission's stated position that unbundled elements cannot be recombined to create a resale service because this recombination fosters arbitrage of CBT's rates, as previously discussed.

Q. Please explain why value added services will be provided as separate options from the port with rates the same as for resale services.

A. Value added services, such as Call Waiting and DID terminations, provide significant contribution in support of universal service. As with nonresidence access lines, these services will be available for resale at rates that continue to provide this contribution. If these features were provided as part of the port at no charge, the contribution from these services would shift from supporting universal service to competitors' bottom lines. Such a result is not in the public interest. Additionally, pricing vertical services close to cost negates much of the incentive for NECs to deploy switches and/or new switch technologies. If the network provider cannot price these services to reflect market demand, i.e., the value customers attribute to

the features, but rather must price to allow retail providers buying functionality to capture most of the market-based contribution, there is virtually no incentive to take the risk and invest in new switches or equipment. Consumer welfare suffers because consumers will be denied the benefits of multiple providers providing new services and technologies.

Q. How does CBT's proposed Carrier-to-Carrier Tariff affect CBT's current Policies and Practices regarding resale and sharing?

A. CBT's Carrier-to-Carrier tariff is applicable only to NECs. Other companies who resell CBT services, e.g. shared tenant service providers, will remain under CBT's current Resale and Sharing Regulations in CBT's General Exchange Tariff.

Q. How do the rate and tariffing proposals of CBT relate to CBT's request for a waiver of certain rules?

A. I would like to emphasize that the rate and tariffing proposals in CBT's *Commitment 2000* are inter-related with CBT's Carrier-to-Carrier Tariff because both are dependent on CBT receiving the requested waivers regarding (i) temporary suspension of the requirement to charge prices for unbundled network elements at cost, without regard to end user classification (i.e. residence/non-residence), until universal service reform provides for the recovery of subsidies implicit in current retail rates or retail rates are rebalanced as proposed herein, (ii) suspension of the resale requirements to permit CBT to sell enhanced services or value added services as separate options rather than as part of the basic port functionality, and to price

these services the same whether sold as resale services or unbundled network elements, (iii) modification of the FCC rule that allows NECs to combine unbundled elements provided solely from CBT in order to provide end to end service, and (iv) modification of certain other resale guidelines to permit limited resale restrictions. If these waivers were not approved, CBT would need to immediately rebalance rates to the levels similar to those possible at the maximum levels for the end of year two of this Plan.

Q. Does this conclude your testimony?

A. Yes, it does.

0387744.01

**ONE YEAR AFTER TELECOM ACT:
MCI AGGRESSIVELY EXPANDS LOCAL SERVICE**

**Brings Local Networks to Six New Cities, Plans Local Service for
Residential Customers in More States**

MCI Committed to Serving Local Customers Nationwide

WASHINGTON, DC, February 6, 1997 □ A year after President Clinton signed the Telecommunications Act of 1996, MCI announced today that it is significantly expanding its local telephone service offerings throughout the nation.

At a Washington press conference, MCI President and Chief Operating Officer Timothy F. Price said the company this year will offer customers switched local service in six new markets. They are Washington, DC, Dallas, Houston, San Antonio, Cincinnati and Fort Lauderdale. The additions will bring to 31 the number of major markets where MCI offers customers a choice for facilities-based local telephone service.

In addition, Price said MCI will dramatically broaden the reach of its local switched networks in New York City, Baltimore and Seattle. And MCI will inaugurate statewide resale service to residential customers in Illinois and New York, adding to its current residential offering in California.

"MCI is committed to serving local customers throughout the country as soon as regulatory conditions allow real competition," Price said. "Today's announcement is strong evidence of MCI's belief that government will do the right thing: cut access charges and force incumbent monopolies to really open their local markets.

"MCI will continue to build our own local switched networks and offer statewide residential service first in those markets and states that actively promote local competition."

In addition to moving into six new markets, MCI will expand the reach of its existing switches in Seattle, Baltimore and New York City to reach suburban areas in Tacoma, WA, Rockville, MD and Brooklyn, Queens, lower Westchester County and Nassau County, NY.

MCI also will offer local resale service for residential customers on a statewide basis in Illinois and New York. MCI currently offers local service for residential customers throughout Pacific Bell territory in California and for business customers throughout SNET territory in Connecticut.

MCI has invested \$1 billion to date -- and will spend another \$700 million by year-end -- in building its own state-of-the-art local switched networks. Today, the company offers local service over its networks in 19 markets, and is scheduled to add another six markets by Spring. Today's announcement boosts to 31 the number of markets where MCI will offer facilities-based local service in 1997.

"We will get into local service just as we got into long distance," said Price. "MCI now serves 20 million long distance customers across America, and we want every one of them to enjoy the benefits of choice in local service, too.

"We plan to serve residential customers with our local networks," Price said. "But we're constrained right now by the unwillingness of the local telephone monopolies to negotiate reasonable terms for leasing the

monopoly network elements that we need to bring service to residential customers."

One year later: The competitive climate

At its signing on February 8, 1996, the Telecommunications Act of 1996 promised a future in which local and long distance companies would compete in each other's markets, wireless and cable companies would become part of the mix, and consumers would reap the rewards of competition.

"Today the promise of the Act remains largely unfulfilled, primarily because of resistance by the local telephone monopolies," said Price. "At every turn, the regional Bell companies, GTE and the other local monopolies are opposing FCC rules intended to open local markets. They're dragging out negotiations on interconnection agreements at the state level and resisting the steps needed to resell local service.

"We didn't expect the local monopolies to be cooperative. On the other hand, we didn't expect that, after four months, they'd have fulfilled only seven out of our 72 requests for co-location.

"Having a local telephone monopoly is like having a license to print money. And asking a monopoly to open up its market is like trying to take away that printing press. It's a very tough proposition. Nevertheless, MCI is leading the way to bring competition to local markets for business and residential customers."

MCI announced a strong commitment to enter the local service arena more than two years ago. Today, MCI local service is available in Atlanta, Baltimore, Boston, Chicago, Cleveland, Detroit, Hartford, Los Angeles, Miami, Milwaukee, New York, Orlando, Philadelphia, Pittsburgh, Portland, Ore., San Diego, San Francisco, Seattle and Tampa. The next six markets to be turned up are Denver, Memphis, Minneapolis, Newark, N.J., Phoenix, and Raleigh, to be followed by the six new markets announced today.

MCI, headquartered in Washington, DC, provides a full range of integrated communication services to more than 20 million customers. Credited with opening up the U.S. long distance market for competition, MCI is now leading the charge to bring competition to the \$100 billion local market, offering American consumers for the first time the freedom to choose their local carrier. With 1996 revenue of \$18.5 billion, MCI is one of the largest and fastest growing telecommunication companies in the world. On November 3, 1996, MCI announced a definitive agreement to merge with BT to form Concert plc, the world's first global communications company.

Copyright © 1996 by MCI Telecommunications Corporation. All Rights Reserved. The names, logos and icons identifying MCI's products and services are proprietary marks of MCI Communications Corporation.

deep lower
verged
in

BUSINESS

THE CINCINNATI ENQUIRER

CIC, 768-8477; FAX: 768-8330

FRIDAY • FEBRUARY 14, 1997

Manufacturing
Astro Container pays fine to state for
improperly securing drums of waste paints.
Industry notes C10

Pace
C12

Area first to get GTE wireless Media blitz will introduce phone service

BY MIKE BOYER

The Cincinnati Enquirer

Cincinnati will be the first city in the country to have GTE Corp.'s new digital wireless telephone service.

Atlanta-based GTE Wireless will introduce the service, known as Personal Communications Services (PCS), this weekend with a heavy media blitz. Monday, it will begin selling specially designed PCS phones, priced around \$150, that have numeric paging, voice mail and caller identification capability.

PCS is a digital version of current analog cellular telephone service, which relays calls through a network of radio anten-

nas, or "cells." Proponents say PCS offers greater call clarity, greater calling capacity and features.

The downside is that, at least initially, PCS service is limited because a nationwide network is still being built.

"This is truly an historic event," said Kevin Thigpen, GTE Wireless area general manager. "We're proud to be the first to offer consumers here the most advanced and reliable wireless service."

Initially, Mr. Thigpen said, GTE's service will be limited to a calling area stretching from Hamilton in the north to Florence in the south, into Clermont County on the east and to the Indiana border on the west through a network of 50 cells. By year-end, GTE says its service will stretch north to Dayton and Springfield.

The arrival of GTE's service is the first fruit of the Federal Com-

PCS prices

GTE Wireless will introduce its new digital wireless telephone service, known as personal communications services, in Cincinnati next week.

To access the service, customers will have to purchase specially designed phones that include features such as voice mail and numeric paging. The phones, sold through new GTE stores and other retailers, will cost around \$150. The calling plans:

► Basic 15 basic service costs \$17.95 a month and includes 15

minutes of calling. Additional time is 30 cents a minute.

► Basic 60 costs \$24.95 a month and includes 60 minutes of air time. Additional minutes are 25 cents each.

► Power 200 costs \$39.95 and includes 200 minutes of air time. Additional minutes are 20 cents each.

GTE will also offer more flexible calling plans for businesses and a prepaid calling option costing \$35 for 60 minutes or \$72 for 120 minutes.

munications Commission's auction of excess radio band width during the last two years.

GTE and AT&T paid a total of \$85 million in an FCC auction last year for separate licenses to provide PCS in this region.

AT&T plans to roll out its wireless service in the area late

this year. PCS was first introduced in Washington, D.C., by Sprint Spectrum last year and is being rolled out by more than a dozen different providers nationwide this year.

The new competitors are expected to touch off an intense battle for market share with the

area's existing cellular telephone carriers — Ameritech Cellular and AirTouch Cellular.

"PCS is really a lot of hype. It's not breakthrough technology, and it's not a lot of new features and functions," said Mike Finley, vice president of AirTouch's southern region, which includes Cincinnati.

Mr. Finley said AirTouch plans to convert its analog cellular service to digital technology starting this year.

Nationally, estimates are that cellular service has gotten only about 15 percent of the population as customers. Mr. Thigpen said GTE thinks that penetration in the Cincinnati area is about 13 percent.

GTE Wireless employs about 150 in the Cincinnati area. Mr. Thigpen said trials with 200 area customers in the last month have been flawless.

Dow tops 7000; other indexes surge

Industrials make fastest ever 1,000-point move

BY URSULA MILLER
The Cincinnati Enquirer

Monitoring the Dow's record climb

7000

Thursday, February 14, 1997