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February 28, 2000

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Director, Utility Operations

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Director, Utility Services

DONNA M. KOLILIS
Director, Administration

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Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED³

FEB 28 2000

Missouri Public
Service Commission

RE: Case No. TM-2000-366

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of an **ENTRY OF APPEARANCE AND STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Cliff E. Snodgrass
Senior Counsel
(573) 751-3966
(573) 751-9285 (Fax)

CES:sw
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

FEB 28 2000

Missouri Public
Service Commission

In the Matter of the Joint Application of)
Southwestern Bell Telephone Company and)
SBC Advanced Solutions, Inc. for)
Authority to Transfer Assets to SBC)
Advanced Solutions, Inc.)

Case No. TM-2000-366

ENTRY OF APPEARANCE

COME NOW Cliff E. Snodgrass and William K. Haas and pursuant to rule 4 CSR 240-2.040 herewith file their Entry of Appearance on behalf of the Staff of the Missouri Public Service Commission in connection with the above-styled proceeding. With respect to his entry, Mr. Snodgrass hereby advises the Commission that he is a member in good standing of the Bar of Illinois. Neither Mr. Snodgrass nor any member of the General Counsel's Office is disqualified to appear in court. Mr. Snodgrass designates Mr. Haas as his associate counsel, who by his signature accepts such designation.

Respectfully Submitted,

DANA K. JOYCE
General Counsel

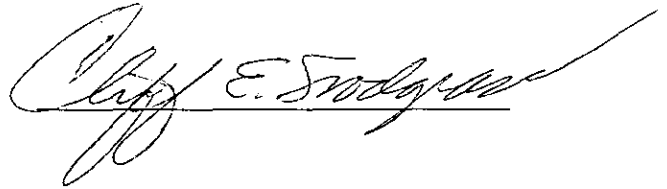
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(573) 751-9285 (Fax)

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand delivered to all counsel of record as shown on the attached service list this 28th day of February, 2000.


Cliff E. Soderstrom

**Service List for
Case No. TM-2000-366
February 28, 2000**

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**Paul G. Lane/Katherine C. Swaller/
Leo J. Bub/Anthony Conroy
Southwestern Bell Telephone Company
One Bell Center, Room 3520
St. Louis, MO 63101-1976**

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

FILED³

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**Missouri Public
Service Commission**

In the Matter of the Joint Application of)
Southwestern Bell Telephone Company)
and SBC Advanced Solutions, Inc. for)
Authority to Transfer Assets to SBC)
Advanced Solutions, Inc.)

Case No. TM-2000-366


STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its Recommendation, pursuant to the authority contained in 4 CSR 240-2.060 (5) and §392.300 RSMo 1994, states as follows:

1. In the attached Memorandum, which is labeled Appendix A, the Staff recommends that the Missouri Public Service Commission issue an Order which:
 - A. Approves the joint application of Southwestern Bell Telephone Company and SBC Advanced Solutions, Inc. for authority to transfer assets to SBC Advanced Solutions, Inc.

Respectfully submitted,

DANA K. JOYCE
General Counsel

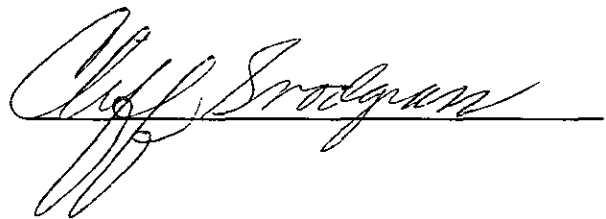


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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 28th day of February, 2000.



MEMORANDUM

RECEIVED

FEB 25 2000

JK 2:18

COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION

CE-25-2000

To: Missouri Public Service Commission Official Case File
Case No. TM-2000-366

From: John Van Eschen
Telecommunications Department

[Signature] for W.H. 2/25/00
Utility Operations Division/Date

[Signature] 2/28/00
General Counsel's Office/Date

Subject: Staff recommendation to approve prior to March 8, 2000, the Joint Application of Southwestern Bell Telephone Company and SBC Advanced Solutions, Inc. for Authority to transfer Assets to SBC Advanced Solutions, Inc.

Date: February 25, 2000

Background

On December 10, 1999 Southwestern Bell Telephone Company (SWBT) and SBC Advanced Solutions, Inc. (SBC-ASI) filed a joint application requesting authority to transfer certain assets to SBC Advanced Solutions, Inc. Parties state that the transaction is necessary "to comply with the terms and conditions required by the Federal Communications Commission (FCC) in CC Docket No.98-141, relating to the merger of SBC and Ameritech. One of the merger conditions requires SBC/Ameritech, for at least three and one-half years, to maintain a separate affiliate or affiliates to provide advanced services in the 13 state area where SBC/Ameritech operates as an incumbent LEC. In Missouri, SBC-ASI is the separate affiliate which will provide such advanced services." On December 10, 1999 the parties also filed a motion to expedite review and approval of the joint application for authority to transfer assets. On December 14, 1999 the Commission issued an order directing staff to file a recommendation regarding approval or rejection no later than February 25, 2000.

SWBT is an incumbent local exchange carrier (ILEC) presently under rate-cap regulation. SBC-ASI is a recently certificated (TA-2000-260) and tariffed (February 7, 2000) provider of intraLATA interexchange and non-switched local exchange telecommunications services. On September 30, 1999 SWBT and ASI submitted an interconnection agreement, which was approved by Commission order December 13, 1999. This Interconnection Agreement is unique in that it is the first Interconnection/Resell Agreement between an Incumbent Local Exchange Carrier (ILEC) and a competitive interexchange carrier (IXC) which in this case happens to be an affiliate of the ILEC. The previous 96 Interconnection agreements all included, as the two parties, an ILEC and a CLEC. Several competitive Local Exchange Companies (CLEC's) sought to intervene in the application but the Commission denied their request.

The transaction will initially allow for SWBT to transfer the assets (Attachment A and other assets not to exceed \$10 million) to its wholly owned subsidiary, SWBT DSL Assets Co. SWBT will then distribute all of its stock in SWBT DSL Assets Co. to SWBT's parent corporation, SBC

Communications Inc. (SBC). SBC will then merge SWBT DSL Assets Co. into SBC-ASI, with SBC-ASI being the surviving entity. The principal office or place of business of SBC-ASI is 1010 N. St. Mary's Room 1400, San Antonio, Texas 78215. The advanced services and equipment which SBC-ASI will provide in Missouri included ADSL, IDSL, xDSL, Frame Relay, Cell Relay, and VPOP-Dial Access Service that rely on packetized technology and which have the capability of transmission speeds of at least 56 kilobits per second in both the transmit and receive direction. Included in the assets to be transferred is one Digital Electronic Switch at \$4,260 K.

Advanced services do not include data services that are not primarily based on packetized technology, such as ISDN, X.25-based and x.75 based packet technologies, or circuit switched services of any type. ASI will provide intrastate advanced services under authority granted by the Commission, and interstate advanced services under authority of the Federal Communications Commission. SWBT estimates that less than 25 customers currently receive intrastate advanced services from SWBT in Missouri, and all these will be transferred to SBC-ASI. From that point on, once SBC-ASI begins offering advanced services in Missouri, SWBT will no longer offer or provide such services in Missouri. SWBT officials have informed Staff that currently there are only two CLEC's (six access lines) offering ADSL services through interconnection/Resale Agreements with SWBT. SWBT has made available to Staff form letters which were released to CLEC's informing them that for negotiation of rates, terms and conditions for the resale of Advanced Services or to interconnect for Frame Relay they should contact Rebecca De La Cruz, with SBC Advanced Solutions, Inc. 300 Convent Street, San Antonio, Texas, 78205.

In support of the Joint Application the parties further state:

- a. They will comply with the FCC's affiliate transaction rules in connection with the transfer of assets;
- b. an independent third party will determine the fair market value of the assets to be transferred;
- c. the transfer of assets contemplated will have no impact on the rates, terms, conditions, or quality level of telecommunications services presently provided by SWBT to its retail customers in Missouri. Furthermore SWBT "does not anticipate" any increases in the costs upon which its wholesale rates are based;
- d. the transferred customers will continue to receive advanced services at the same prices, as well as other major terms and conditions, under SBC-ASI as under SWBT; and
- e. the transfer of assets located in Missouri from SWBT to SBC-ASI will not have a material negative impact on the tax revenues of any political subdivision of Missouri.

Issues

Section III paragraph 7 of the joint application state that "SWBT will conduct an inventory of the specific assets it will transfer to SWBT DSL Assets Co. and will provide a list of such assets to the Commission prior to the Commission making a final determination on this Joint Application." Page

3 of the application states that SWBT and SBC-ASI will provide this information (third party determination of fair market value) to the Commission's Staff after the analysis has been completed." The enclosed list of proposed assets to be transferred, Attachment A, dated 12/07/99 adds up to a total of \$5,204 Million. However the parties estimate that the net book value of the assets located in Missouri which will be transferred eventually to SBC-ASI will not exceed \$10 million. The difference between the request for authority to transfer and an estimate of assets to be transferred is \$4.8 million dollars (\$10M-\$5.2M).

The Parties state "that the transfer of assets contemplated by this application will have no impact on the rates, terms, conditions, or quality level of telecommunications services presently provided by SWBT to its retail customers in Missouri (page 3)." No such assurances are given vis a vis wholesale customers. SWBT "does not anticipate that the transfer of assets will result in any increase in the costs upon which its wholesale rates are based, but in any event, the Commission retains full authority under Section 252 of the federal Telecommunications Act of 1996 to establish prices for any unbundled network elements if the parties are unable to negotiate an agreement. Accordingly, this Commission can ensure that this transfer of assets will not result in increased wholesale rates. (page 4)." The last sentence suggests that the Commission's assurances must be based on its willingness to use its 252 authority rather than on SWBT's assurance -as with retail rates- that wholesale rates will not increase.

SWBT is presently a party to 97 interconnection agreements (3 pending) where the wholesale prices of products is extremely important to CLEC's. SBC-ASI will take over the provisioning of advanced services and equipment from SWBT, (for at least a period of 3.5 years). In a December 28, 1999 letter provided to Staff, SWBT informed CLECs that upon transition of the advanced services and advanced services equipment to ASI, SWBT would no longer be offering Advanced Services for resale under the terms of its existing Resale Agreements and Resale Appendices to Interconnection Agreements, nor would it have the ability or obligation to interconnect for Frame Relay with its wholesale customers under the terms of existing Interconnection Agreements.

Recommendation

This merger and transfer of assets is in response to an FCC mandate which will hopefully establish some parity between competitive facilities-based companies wishing to provide ADSL services. By mandating the creation of a separate affiliate, the FCC is trying to establish a level field for the provisioning of ADSL services. Therefore Staff recommends the Commission approval of the Joint Application of SWBT and SBC-ASI for Authority to Transfer Assets to ASI.

Staff is aware of Tariff File No. 200000352 which is a tariff filing in which SWBT proposes to remove the relevant advanced services from its Missouri intrastate tariff. Due to Tariff File No. 200000352 being effective March 8, 2000, Staff recommends the Commission approve this asset transfer prior to March 8, 2000.

Official Case File
Case No. TM-2000-366
Page 4 of 4

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Case No. TM-2000-366
February 28, 2000**

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