

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

Joint Application for Approval of the
Indirect Transfer of Control Relating to the
Merger of AT&T Inc. and BellSouth
Corporation

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Case No. 2006-00136

MAIN BRIEF OF
COMMUNICATIONS WORKERS OF AMERICA

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The Communications Workers of America (“CWA”) files this Brief with the Commonwealth of Kentucky Public Service Commission (“Commission”) to set forth CWA’s position on the proposed merger of AT&T Inc. (“AT&T”) and BellSouth Corporation (“BellSouth”). CWA represents approximately 2,100 BellSouth employees and 960 Cingular employees in Kentucky. CWA represents more than 42,000 BellSouth employees in the nine-state region. Nationally, CWA represents more than 97,000 AT&T employees and more than 36,000 Cingular employees.

The combination of AT&T and BellSouth promises many consumer benefits, but only if the merged entity maintains an adequate level of trained, experienced employees to properly build and maintain the networks and service customers. AT&T and BellSouth claim they will cut 10,000 jobs as a result of the merger. Therefore, to protect the public’s interest in quality service, the Commission should condition approval of the proposed merger upon the following four requirements: (1) the merged AT&T/BellSouth shall maintain current employment levels in Kentucky for three years after the merger; (2) the merged entity shall maintain high levels of service quality; (3) there shall be no closure of call centers, technical operations centers, or other facilities in Kentucky for three years after the merger; and (4) and the merged AT&T/BellSouth shall deploy DSL capability to every central office in BellSouth’s territory in Kentucky within two years after the merger.

In order for the Commission to approve the transaction, the Commission must find that the transaction is consistent with the public interest. KRS 278.020(5). The Commission may impose terms and conditions it deems necessary or appropriate to protect the public interest. KRS 278.020(6).

The proposed merger of AT&T/BellSouth holds the promise of many public interest benefits for Kentucky consumers. The combination will likely accelerate the deployment of high-speed Internet networks to many more Kentucky consumers by expanding AT&T's Project Lightspeed into Kentucky. The combination of BellSouth's fiber-rich network with AT&T's investments in IPTV technology and content will result in faster deployment of high-speed networks than if the companies remain separate. The proposed merger will also permit integration of the separate AT&T, BellSouth, and Cingular wireless networks into a single IP network capable of carrying local and long distance voice, data, and wireless traffic, making possible converged wireless/wireline services. Joint Application for Approval of the Indirect Transfer of Control Relating to the Merger of AT&T Inc. and BellSouth Corporation, Case No. 2006-00136, March 31, 2006, pp. 14-22.

However, the proposed merger could result in the loss of good jobs in Kentucky with negative impact on the quality of service provided to Kentucky customers. According to AT&T and BellSouth, the merger will result in the loss of 10,000 jobs nationally. Joint Application, p. 3. The Joint Applicants project that half of the \$13.9 billion in operating expense synergies will result from headcount reduction. CWA Exh. 2. The Joint Applicants do not identify whether any of the headcount reductions would result in lay-offs or from the movement of work out-of-state or closing of facilities in the Commonwealth of Kentucky. Tr. 47 – 49; 129-134.

CWA has sought assurance from BellSouth and AT&T about the employment security of its members in Kentucky. In oral testimony before this Commission, Mr. Eddy Roberts, State President of BellSouth in Kentucky, seeks to reassure the Commission that the proposed merger will be “good for employment for BellSouth in Kentucky” and that any headcount reduction will

likely result from attrition. Tr. 49.

Yet, neither Mr. Roberts nor Mr. James S. Kahan, Senior Executive Vice President of AT&T, in testimony before this Commission were willing to make any commitment that the merged entity would maintain employment levels, refrain from lay-offs, facility closing, or movement of work outside of the Commonwealth of Kentucky. Tr. 48-51; 131-136.

The Commission should not simply accept vague promises, but should require specific commitments. Absent specific commitments, the Commission cannot hold the Joint Applicants to their vague assurances. We need only look at what happened after SBC bought the “old” AT&T. During that merger review process, SBC and AT&T assured state Commissions that the merger would create a much stronger job outlook for the combined organization and would have a positive impact on employment in the states. Six months after the closing of the merger, AT&T announced a reduction-in-force, including the closure of consumer call centers in Pennsylvania, Arizona, and Massachusetts and 25 percent reduction in positions at the TRS relay center for the hard of hearing in Pennsylvania. CWA Exh. 3.

Mr. Kahan claims that these lay-offs had “nothing to do with the SBC or the merger” because AT&T’s mass market call volume was declining. Tr. 130-131. It strains credulity to understand how a decision made by the merged SBC/AT&T management (now the “new” AT&T) to close three call centers had “nothing to do with SBC.” Further, the new entity rejected an opportunity to reverse the old AT&T’s practice of subcontracting work to offshore call centers in order to increase call volumes to its own centers and thereby keep them open. These decisions had everything to do with the new merged SBC/AT&T.

Therefore, to preserve the Commissions's authority to protect the public's interest in quality service provided by adequate staffing of experienced, skilled employees, the Commission should require as a condition of merger approval the following four conditions.

First, the Joint Applicants should commit to maintain the highest standards of service quality.

Second, the Joint Applicants should be required to maintain employment levels in the state of Kentucky for at least three years after the merger closes at the same level as on the date the merger closes.

Third, the Joint Applicants should commit that the merged entity shall not close any technical operations, call centers, or other facilities in the state of Kentucky for three years after the merger closes.

Fourth, the merged entity should commit to upgrade every central office in the state for DSL capability within two years after the merger closes.

The Commission has the statutory authority to impose these conditions, and the imposition of these conditions is essential to support a finding that the merger is in the public interest.

The Commission has ample precedents for such conditions. Just two months ago, in the Alltel wireline spin-off and Valor merger, the Commission confirmed in its Order approving that transaction that the Applicants agreed that "(N)o reduction in the employee headcount in Kentucky would occur as a result of this transaction." Further, the Commission required the emerging entity to employ adequate resources to meet the quality of service standards established by the Commission and to continue investment in high-speed Internet facilities in the

state. In the Matter of Application for Approval of the Transfer of Control of Alltel Kentucky, Inc. and Kentucky Alltel, Inc., Order, Case No. 2005-00534, May 23, 2006.

In the Verizon/Alltel Order, the Commission required Alltel to hire an additional 240 customer service workers to ensure quality service, meet stringent service quality standards, and expand DSL deployment. *In the Matter of Petition by Alltel Corporation to Acquire the Kentucky Assets of Verizon South, Incorporated*, Case No. 2001-00399, Feb. 13, 2002.

In the Bell Atlantic/GTE Order, the Commission required Bell Atlantic to increase its capital investment by \$222 million over three years, expand deployment of advanced services, and meet service level standards. The Commission affirmed the Applicants' statement that the merger would result in "very little, if any, impact on the number of hourly employees." *In the Matter of Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control, Order*, Case No. 99-296, Sept. 7, 1999.

In addition, in each of its prior mergers, state regulatory Commissions required SBC, AT&T's predecessor company, to meet employment guarantees.

In approving the SBC purchase of Ameritech, the Public Utility Company of Ohio required then SBC, now AT&T, to maintain in-state employment for two years. *Before the Public Utilities Commission of Ohio, In the Matter of the Joint Application of SBC Communications Inc, SBC Delaware Inc., Ameritech Corporation, and Ameritech Ohio for Consent and Approval of a Change of Control, Opinion and Order*, Case No. 98-1082-TP-AMT, April 8, 1999.

The Illinois Commerce Commission required SBC to maintain employment at its current level. *Joint Application for Approval of Illinois Bell Telephone Company d/b/a/ Ameritech*

Illinois and the Reorganization of Ameritech Illinois Metro, Inc. in Accordance with Section 7-204 of the Public Utilities Act and All Other Appropriate Relief, Order, Case 98-0555, Sept. 23, 1999.

In approving SBC's purchase of Pacific Telesis, the California Commission required SBC to create at least 1,000 new jobs in California. *Before the Public Utilities Commission of the State of California, In the Matter of the Joint Application of Pacific Telesis Group (Telesis) and SBC Communications, Inc. (SBC) for SBC to Control Pacific Bell (U 1001 C), Which Will Occur Indirectly as a Result of Telesis Merger With a Wholly Owned Subsidiary of SBC, SBC Communications (NV) Inc., Decision 97-03-067, March 31, 1997.*

The Connecticut Department of Public Utility Control confirmed SBC's commitment to create at least 1,400 more jobs in the state in approving the SBC/SNET transaction. *State of Connecticut Department of Public Utility Control, Joint Applications of SBC Communications Inc. and Southern New England Telecommunications Corporation for a Change of Control, Decision, Docket No. 98-02-20, Sept. 2, 1998.*

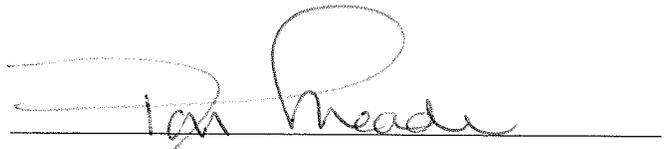
Further, in prior mergers, state Commissions have required SBC, now AT&T, to meet service quality requirements. The Illinois Commerce Commission and the PUC of Ohio established stiff penalties for failure to meet wholesale and retail service benchmarks. *Before the Illinois Commerce Commission, SBC/Ameritech Order; Before the Public Utilities Commission of Ohio, SBC/Ameritech Order.* The California PUC required the merged company to meet or exceed service requirements over five years after the merger. *Before the Public Utilities Commission of the State of California, SBC/Pacific Telesis Order.*

These conditions have provided state Commissions the authority to hold the merged entity accountable to employ adequate human and capital resources to ensure consumers receive quality service. Without such requirements, the merged entity would be free to cut employment, service levels, and capital investment, and the Commission would be required after the fact to open a new proceeding to remedy any service quality problems.

In summary, the Joint Applicants have announced significant merger-related job reductions and have targeted half the operating expense synergies, or cost cuts, to be realized through headcount reduction. After the acquisition, BellSouth will be merged into a national company, with the very real possibility that Kentucky jobs will be moved out of state, with negative impact on the quality of service provided to Kentucky consumers.

CONCLUSION

To protect the public interest in quality, reliable service, the Commission should condition merger approval upon the following four conditions. First, the Joint Applicants should commit to maintain the highest standards of service quality. Second, the Joint Applicants should commit to upgrade every central office in the state for DSL capability within two years. Third, the Joint Applicants should be required to maintain employment levels in the state of Kentucky for at least three years after the merger closes at the same level as on the date the merger closes. Fourth, the Joint Applicants shall commit that the merged entity shall not close any technical operations, call centers, or other facilities in the state of Kentucky for three years after the merger closes.

A handwritten signature in black ink, appearing to read "Don Meade", is written over a solid horizontal line. The signature is stylized with a large, looped initial "D" and a cursive "Meade".

Don Meade, Counsel for CWA

CERTIFICATE OF SERVICE

This is to certify that a copy of the accompanying Direct Testimony of Debbie Goldman was served, by electronic mail this 30th day of June, 2006, on Henry S. Alford; Bethany L. Bowersock; Holland N. McTyeire and Dennis G. Howard II. A copy of same was also served by first class mail on the following:

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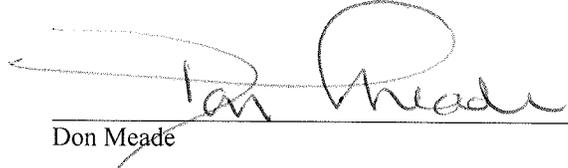
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