CASE NUMBER:

99-296

10-4-99

Larry D. Callison
State Manager
Regulatory Affairs & Tariffs

GTE Service Corporation

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RECEIVED

OCT 0 4 1999

PUBLIC SERVICE COMMISSION

September 30, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Post-Office Box 615
Frankfort, Kentucky 40602

Re: Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control - Case No. 99-296

Dear Ms. Helton:

Pursuant to the Kentucky Public Service Commission's ("PSC") order dated September 7, 1999 in the above-referenced matter, this letter is to advise the Commission that GTE South Incorporated ("GTE") has scheduled an informal conference with Commission Staff "to begin a dialogue regarding GTE's current revenues".

The informal conference has been scheduled to begin at 10:00 a.m. (EDT) on October 7, 1999.

Should you have any questions, please do not hesitate to contact me at your convenience.

Yours truly,

Larry D. Callison

Larry D. Callison

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State Manager
Regulatory Affairs & Tariffs

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SEP 17 1999
PUBLIC SERVICE COMMISSION

September 17, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Post Office Box 615
Frankfort, Kentucky 40602

Re: Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control - Case No. 99-296

Dear Ms. Helton:

Enclosed for filing with the Kentucky Public Service Commission ("Commission") are an original and ten copies of the Joint Applicant's (Bell Atlantic Corporation and GTE Corporation) Motion for Modification of the Commission's September 7, 1999 order in this matter.

I would be most appreciative if you would bring this filing to the attention of the Commission, and should you have any questions about the enclosed material, please do not hesitate to contact me at your convenience. Thank you for your consideration in this matter.

Yours truly,

Larry D. Callison

Larry D. Callison

Enclosure

c: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
SEP 17 1999
PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BELL ATLANTIC)
CORPORATION AND GTE CORPORATION) CASE NO. 99-296
FOR ORDER AUTHORIZING TRANSFER)
OF UTILITY CONTROL)

MOTION FOR MODIFICATION OF ORDERING PARAGRAPH 10 OF SEPTEMBER 7, 1999 MERGER APPROVAL ORDER

COME NOW Bell Atlantic Corporation and GTE Corporation (referred to hereinafter respectively as "Bell Atlantic" and "GTE", or sometimes collectively as "Joint Applicants"), by and through counsel, pursuant to Ky. Rev. Stat. Ann. § 278.400 and Kentucky Public Service Commission ("Commission") Rule 807 KAR 5:001 § 4, et. seq., and in support of their Motion for Modification of Ordering Paragraph 10 of the September 7, 1999 Merger Approval Order, state as follows:

1. On September 7, 1999, the Commission issued an order in this matter ("Order") approving the transfer of utility control (hereinafter "merger") pursuant to which GTE would become a wholly owned subsidiary of Bell Atlantic.[1]

[1] Order at 1, 8.

2. In approving the merger of GTE and Bell Atlantic the Commission imposed certain terms and conditions upon the Joint Applicants.[2]

3. In Ordering Paragraph Number 10 of its Order, the Commission stated that the terms and conditions imposed therein became effective upon the date of the Order, or September 7, 1999.[3]

4. Joint Applicants now seek modification of Ordering Paragraph 10, to make the terms and conditions effective upon merger closing. Their reasons for seeking this relief are described below.

5. In their Application[4] and in testimony,[5] Joint Applicants made certain financial and operational commitments, all of which were expressly contingent on the merger closing. Indeed, the September 7 order refers in various places to the fact the commitments will occur "as a result of the merger." (See, e.g., numbered paragraphs 1, 7 and 7). The merger will not become a reality until the transaction closes. (Joint Application, pp. 10-11). The transaction will close as soon as all required state and federal approvals have been obtained. (Id.). As Mr. Kissell testified at the hearing, Joint Applicants currently expect to close the merger at the end of January 2000. (Aug. 24 Tr. at 50).

6. Once the merger actually closes, the synergies and cost savings needed to perform the commitments will begin to accrue. Those synergies and savings will not occur until the merger is completed. Thus, it will not be possible for Joint Applicants to perform these commitments until the merger

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[2] Order at 8, 9.
[3] Order at 9.
[4] Joint Application at 2 - 4.
[5] See, for example, the pre-filed direct testimony of GTE witnesses Kissell, Griswold and Reed.

actually closes. For example, ordering paragraph 3, which requires the merged company to file best practices reports every six months with actual and updated costs and savings numbers, cannot be performed until the merger actually occurs. Ordering paragraph 10 should therefore be modified to make clear that the commitments and conditions take effect upon the merger actually closing.

7. Joint Applicants are very pleased and grateful for this Commission's decision to approve the merger. Joint Applicants fully intend to comply with each and every commitment they made in this proceeding, and with all the requirements of ordering paragraphs 1-9. But unless and until the merger actually becomes a reality (and Joint Applicants fully expect that to occur early next year), it would not be practical, fair or consistent with the record of this proceeding to require Joint Applicants to perform any merger-related commitments. Simply stated, there will be no merger until the transaction closes, so none of the merger-related commitments should take effect until that time.

8. Notwithstanding this motion, GTE will comply with that portion of the September 7 order that does not depend on merger closure; specifically, the second sentence of ordering paragraph 9. That sentence requires GTE, within 30 days, to schedule an informal conference with the Commission Staff to begin a dialogue regarding GTE's current revenues. Because GTE's ability to comply with that condition does not depend on the merger actually closing, GTE hereby states it will comply with that condition within the time currently required, regardless of how the Commission rules on this motion.

9. Therefore, Joint Applicants respectfully ask the Commission to modify ordering paragraph 10 of the September 7 Order and issue a revised ordering paragraph 10 that would state as follows: "The terms and conditions imposed herein shall become effective upon merger closing." This result would be fully consistent with the letter and spirit of the commitments offered by the Joint Applicants in this proceeding. Moreover, no party raised any issue at the hearing about the commitments being contingent on merger closure. Finally, Joint Applicants believe their request is reasonable and fully consistent with the remainder of the September 7 order.

WHEREFORE, Bell Atlantic Corporation and GTE Corporation respectfully request that the Commission grant this motion for modification of the September 7 order as discussed above, and issue a revised order making the terms and conditions of the merger effective on the date of merger closing.

Respectfully submitted this the 17th day of September, 1999.

BELL ATLANTIC CORPORATION
GTE CORPORATION

BY: Joe W. Foster

JOE W. FOSTER
4100 N. ROXBORO ROAD
DURHAM, NC 27704
(919) 317-7656

THEIR ATTORNEY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Motion For Modification of Ordering Paragaraph 10 of September 7, 1999 Merger Approval Order of Bell Atlantic Corporation and GTE Corporation was served on all parties of record in this proceeding by placing a copy of same, properly addressed, in the U. S. Mail, first class postage prepaid, this the 17th day of September, 1999.

Larry D. Collison

Msword.reconm~1.doc

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

CERTIFICATE OF SERVICE

RE: Case No. 99-296
GTE SOUTH, INC.

I, Stephanie Bell, Secretary of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the following by U.S. Mail on September 7, 1999.

See attached parties of record.

Stephanie J. Bell
Secretary of the Commission

SB/sa
Enclosure

Larry D. Callison
State Manager-Regulatory Affairs
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Lexington, KY. 40503

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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	))))	CASE NO. 99-296

O R D E R

On July 9, 1999, GTE Corporation, the parent company of GTE South Incorporated (collectively "GTE"), and Bell Atlantic Corporation ("Bell Atlantic") (collectively "Applicants") filed an application requesting approval for the transfer of utility control (hereinafter "merger") pursuant to which GTE will become a wholly owned subsidiary of Bell Atlantic. A previous application was filed on October 2, 1998 by the Applicants. The Commission denied the previous application without prejudice by Order dated April 14, 1999 (hereinafter "April 14th Order").[1]

PROCEDURE

On July 15, 1999, the Commission issued an Order which set forth a procedural schedule providing for discovery, intervenor testimony, rebuttal testimony, public hearing, and post-hearing briefs. By Orders dated July 22 and July 29, 1999, respectively, intervention was granted to Sprint Communications Company, L.P. ("Sprint") and to the Attorney General of the Commonwealth of Kentucky. Applicants

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[1] Case No. 98-519, Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control.

prefiled the testimony of nine witnesses scheduled to testify at the hearing. Sprint prefiled the testimony of one witness scheduled to testify at the hearing. The hearing was conducted by the Commission on August 24, 1999. All witnesses were subject to cross-examination by the other parties. At the conclusion of the hearing on August 24, 1999, the Applicants requested the right to file reply briefs. The request was granted, and the Applicants and Sprint filed reply briefs on September 2, 1999.

The proposed merger will be accomplished by GTE's merging into Beta Gamma Corporation, a subsidiary of Bell Atlantic. Beta Gamma Corporation has been specifically created to facilitate the merger and, upon the merger's completion, it will cease to exist. GTE will be the surviving entity and will become a subsidiary of Bell Atlantic. GTE shareholders will receive 1.22 shares of Bell Atlantic stock for every share of GTE stock. Bell Atlantic will become the parent corporation.

On July 28, 1998, Bell Atlantic and GTE entered into a merger agreement. The two firms would merge in a transaction valued at approximately $53 billion at the time of the agreement. As a result of the merger, the Applicants' cellular and other wireless mobile telephone service subscribers will be 13.1 million. The shareholders of GTE approved the merger on May 18, 1999, and Bell Atlantic's shareholders approved the merger on May 19, 1999.

<u>GTE</u>

GTE Corporation is a corporation existing pursuant to the laws of the state of New York with its principal offices located in Irving, Texas. GTE provides local phone service to retail customers in 28 states, including Kentucky, and serves approximately 23.5 million access lines. GTE subsidiaries provide telecommunication services on a regulated and unregulated basis in several foreign nations. GTE provides local exchange telephone services to approximately 547,288 switched access lines throughout Kentucky. GTE also provides access service and intraLATA toll service between its own exchanges and the exchanges of other local telephone companies. In Kentucky there are several subsidiaries of GTE that provide telecommunication services. GTE Communications Corporation, formerly GTE Card Services, Inc., doing business as GTE Long Distance, is authorized to provide competitive local exchange service and to provide long-distance service as a reseller and as a facilities-based carrier throughout Kentucky. Through three wholly owned subsidiaries, GTE also provides wireless communications in Kentucky. GTE had annual operating revenues in 1998 of $25.5 billion.

BELL ATLANTIC

Bell Atlantic is headquartered in New York City, New York, and is a corporation existing under the laws of the state of Delaware. Bell Atlantic has two subsidiaries in Kentucky that provide telecommunication services. They are Bell Atlantic Communications, Inc. and NYNEX Long Distance Company, doing business as Bell Atlantic Long Distance. Both are switchless resellers of long-distance service. Bell Atlantic's subsidiaries provide telecommunication services to other states in the northeast and in several foreign countries. Bell Atlantic's regulated local telephone subsidiaries serve a total of approximately 41.6 million access lines in 13 states and the District of Columbia. Bell Atlantic had annual operating revenues of $31.6 billion in 1998.

STATUTORY PROVISIONS AND APRIL 14TH ORDER

Pursuant to KRS 278.020(4), no person may acquire or transfer control of a utility until the Commission has determined that the acquirer has the financial, technical, and managerial abilities to provide reasonable service. KRS 278.020(5) provides, in pertinent part, that no one may acquire control of a utility unless the Commission has determined that the acquisition is made in accordance with the law, for a proper purpose, and is consistent with the public interest. The Commission may grant any application under this subsection in whole or in part upon terms and conditions as it deems necessary or appropriate. KRS 278.020(5).

The April 14th Order stated that the Applicants would be permitted to refile their application and that the refiling must, at a minimum, address the following specific issues:

1. The advanced services to be made available in Kentucky and, in addition, the plans for bundling or packaging of services in Kentucky as the result of the merger;

2. The mechanisms and safeguards to be employed by the Applicants to ensure that service quality does not erode in Kentucky;

3. The details of the proposed merger, including information regarding the intention that Bell Atlantic and GTE will continue to operate separately and information regarding any anticipated effect upon rates and service in Kentucky;

4. The effects, if any, upon any interLATA local calling routes currently provided by GTE to its Kentucky customers, upon the continuation of interLATA interexchange services offered by GTE Long Distance to its Kentucky customers, and upon cellular customers in Kentucky;

5. The specific effects of the merger upon market power exercised in Kentucky by the Applicants, upon telecommunications competition in Kentucky, and upon GTE's ability to provide reasonable service at a fair, just, and reasonable rate; and

6. The costs and savings attributable to GTE's operations in Kentucky as a result of the merger, including a discussion of any projected net merger-related savings that will accrue on the Kentucky jurisdictional level.

FINDINGS OF FACT

The merged entity possesses total assets of $99 billion as well as operating revenues of $57 billion, with a net income of $6.9 billion. Applicants will employ 255,000 people, and will have 63.2 million domestic access lines and 10.6 million domestic wireless customers. The companies state that this is a merger of parent companies only and will not affect GTE's day-to-day operations in any manner. The net cost savings resulting from the merger allocable to GTE's Kentucky intrastate regulated operations will reach $7.2 million per year after a three-year period. The Applicants are expected to combine the Best Practices of each, which will result in net cost savings and a more efficient quality of service for Kentucky customers.

The Applicants have committed to extending advanced CLASS services to 100 percent of GTE's exchanges in Kentucky within 48 months after consummation of the merger. This commitment is apparently made to address a concern of the Commission in regard to the deployment of advanced services.[2] The Applicants stated that they will offer packages of local, long distance, data, Internet, and wireless services to Kentucky customers that are competitive with those currently being offered by competitors.

[2] Joint Application at 2.

The Applicants assure the Commission that they will invest a minimum of $222 million in Kentucky over the next three years to ensure that the merger will have no negative impact on service quality.[3] Additionally, the Applicants have committed to expand extended area calling plans to the remaining GTE exchanges that do not currently have calling plans.[4] The Applicants state that GTE's current interLATA local calling routes provided to Kentucky customers will not in any way be altered.[5]

The Applicants have assured the Commission that GTE's market power in Kentucky will neither result in any anti-competitive behavior nor harm Kentucky consumers.[6] They accurately point out that the Applicants will remain subject to the regulations of this Commission. The Applicants estimate there will be $2 billion in cost synergies and $.5 billion in capital synergies as the result of the merger. As a result, the Applicants assert the merger will not in any way adversely affect the rates, terms, or conditions of GTE's services or the quality of those services. Applicants assert, additionally, that the merger will have no adverse impact on cellular customers in Kentucky or Bell Atlantic's affiliates in Kentucky.

The following specific commitments have been made by the Applicants to this Commission:

1. To extend the advanced CLASS services to 100 percent of GTE's exchanges in Kentucky within four years of the consummation of the merger. The

[3] Id.

[4] Id.

[5] Id. at 3.

[6] Id. at 3-4.

exchanges to receive these services are in rural areas and serve approximately 25,000 customers at a cost of approximately $23.7 million.[7] The Commission believes, however, that this extension of services can, and should, take place in a shorter period of time as hereinafter set out.

2. To enter the Louisville market within 18 months of the merger and provide high-speed data services, including voice-over Internet protocol, virtual private networks, web hosting, intranets, extranets, managed networks, frame relay, ATM technology, I-bandwidth point-to-point wireless technology, and other advanced services. According to the Applicants, this commitment ensures that these services will become available to all Kentuckians at a faster pace than would be accomplished otherwise.[8]

3. To provide a guaranteed minimum of $222 million in capital commitments in the state of Kentucky for 3 years following the merger.[9]

4. To expand local calling plans to local calling areas across Kentucky which do not now benefit from them.[10]

The Applicants have stated that there will be very little, if any, impact on the number of hourly employees. Management audit concerns are being addressed by

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[7] Reply Brief of the Joint Applicants at 3-6.

[8] Id. at 8-9.

[9] Reply Brief of the Joint Applicants at 6-7.
The Commission notes that this level of commitment only slightly exceeds GTE's commitment as a stand-alone operation and hopes, given the cost savings and synergies from the merger, that the stated figure is indeed a "minimum" commitment.

[10] Id. at 8.

imminent plans to construct capital projects and to upgrade facilities in various Kentucky exchanges. The Applicants have expressed an intention to honor the terms of their interconnection agreements with competing carriers.

Testimony regarding revenue was produced during the hearing from a witness[11] for GTE. The witness recognized that GTE is willing to address the revenue issue and to begin dialogue with Commission Staff concerning GTE's revenues. It is acknowledged by the Applicants and the Commission that the revenue issue is separate and apart from any merger issue.

CONCLUSIONS

The Applicants have provided sufficient evidence to prove that the acquirer has the financial, technical, and managerial abilities to provide reasonable service. The proposed merger is made in accordance with law, and does not violate any statutory prohibition, and is consistent with state law. The proposed merger is for a proper purpose. Based upon the assurances provided, the merger will increase efficiency, reduce costs, boost savings that can be passed on to the consumer, and will improve service. The proposed merger is consistent with the public interest in that it will improve the terms and conditions of services received, the quality of those services, and the overall advancement of telecommunication services in Kentucky.

The Commission, having reviewed the evidence of record and having been otherwise sufficiently advised, HEREBY ORDERS that the application for the approval of the merger of GTE and Bell Atlantic is approved, subject to the following terms and conditions:

[11] Testimony of John Blanchard, August 24, 1999, at 284-293.

1. GTE shall extend advanced CLASS services to 100 percent of GTE's Kentucky exchanges within 24 months.

2. GTE shall continue to file on a monthly basis service quality performance reports using the two prior years as a benchmark for performance standards. These reports will be carefully examined to ensure that current standards are maintained or exceeded.

3. GTE shall review and identify "Best Practices" adopted by the merged companies in a report filed every six months that includes actual and updated costs and savings achieved.

4. GTE shall report on a six-month basis the changes in the number of hourly employees, as well as management-level personnel, in Kentucky.

5. GTE shall report specifically and separately any changes in excess of 10 percent of its three-year capital budget for Kentucky.

6. GTE shall report any changes in the reorganization plan of the proposed merger that is the result of any decision of another jurisdiction.

7. The Applicants are put on notice that failure to meticulously honor all interconnection agreements will subject them to penalties as provided by law.

8. In addition to its normal and customary meaning, "advanced services" includes the definition given that term by the Federal Communications Commission. The term "advanced services" means high-speed, switched, broadband, wireline communications capability that enables users to originate and receive high-quality voice, data, graphics, or video communications using any technology. The term

"broadband" is generally used to convey sufficient capacity--or bandwidth--to transport large amounts of information.[13] Using this definition as stated by the Federal Communications Commission, GTE shall file within six months from the date of this Order its plan to provide advanced services in all its Kentucky exchanges as specified in the April 14th Order.

9. GTE shall cap its local rates at current levels for a period of 3 years. In addition, and within 30 days of the date of this Order, GTE shall schedule an informal conference with Commission Staff to begin a dialogue regarding GTE's current revenues.

10. The terms and conditions imposed herein are effective upon the date of this Order.

Done at Frankfort, Kentucky, this 7th day of September, 1999.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

[13] CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability, FCC 98-48, released March 31, 1999.

Sprint

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August 30, 1999

VIA HAND DELIVERY

Helen C. Helton, Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

RECEIVED

AUG 3 0 1999

PUBLIC SERVICE
COMMISSION

In Re: Case No. 99-296 – Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control

Dear Ms. Helton:

Enclosed please find for filing an original and ten (10) copies of the Brief of Sprint Communications Company L.P. in the above referenced proceeding.

Thank you for your assistance in this matter. Should you have any questions, please feel free to contact me.

Sincerely,

William R. Atkinson

William R. Atkinson

WRA/de
Enclosures
cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
AUG 3 0 1999
PUBLIC SERVICE COMMISSION

In the Matter of:

Joint Application of Bell Atlantic Corporation and GTE Corporation For Order Authorizing Transfer of Utility	))))	CASE NO. 99-296

BRIEF OF SPRINT COMMUNICATIONS COMPANY L.P.

In accordance with the procedural schedule provided in the Appendix of the Commission's procedural Order, issued on July 15, 1999, in this docket, and confirmed by the Commission at the conclusion of the hearing held on August 24, 1999, Sprint Communications Company L.P. ("Sprint") now files its post-hearing Brief in connection with the above-styled matter.

I. INTRODUCTION

As was made clear near the conclusion of the hearing held on August 24, 1999 in this docket, the extent of the Commission's knowledge about certain areas of concern was not substantially increased by the testimony of the Joint Applicants during the hearing.[1] Sprint has consistently stated to the Commission that the merger described in GTE Corporation's ("GTE") and Bell Atlantic Corporation's ("Bell Atlantic" or "BA")

[1] Case No. 99-296, Transcript, at 324-33 (GTE witness Blanchard). See especially Transcript, at 327-28 (post-merger organizational structure), and 329-30 (most appropriate use of $23.7 million for proposed provision of CLASS services to GTE's entire service territory). Please note that the page numbers in the expedited version of the transcript which was available to counsel for Sprint and the Joint Applicants some time prior to the deadline for filing Briefs in this matter may differ somewhat from the corresponding page numbers in the final version of the transcript filed with the Commission in this matter.

(hereinafter, "Joint Applicants") Joint Application for merger authority[2] was not in the best interests of Kentucky consumers. Because the Joint Applicants have not met their burden of proof that the proposed merger is "consistent with the public interest", Sprint urges the Commission to deny the refiled Joint Application.

As this Commission is well aware, KRS 278.020(5) states that "[t]he commission shall approve any such proposed acquisition when it finds that the same is to be made in accordance with law, for a proper purpose and is consistent with the public interest." (emphasis added). Sprint maintains as it did in the prior merger docket that in order to meet the standard in KRS 278.020(5), the Joint Applicants should be required to demonstrate that positive benefits will flow to Kentucky consumers as a result of the merger. The tenuous, ill-defined, conditional and in the case of the proposed extension of CLASS services, dubious "benefits" that the Joints Applicants claim as a result of the proposed merger are not sufficiently definite enough to qualify as positive benefits. Sprint also believes that attempts to show that a merger will not produce negative effects fall short of the evidentiary standard articulated in KRS 278.020(5).

II. UNANSWERED QUESTIONS ABOUND REGARDING THE JOINT APPLICANTS' REFILED MERGER APPLICATION

As the Commission will recall during the hearing in the prior merger docket, GTE's witness admitted that the Joint Applicants can only project general benefits, and cannot point to specific benefits which are likely to result from the merger.[3] The

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[2] Case No. 99-296, *Joint Application of Bell Atlantic Corporation and GTE Corporation for Order authorizing Transfer of Utility* (filed July 9, 1999) (hereinafter " refiled Joint Application").
[3] Case No. 98-519, Hearing Transcript, March 3, 1999, at 15 (GTE witness Jacobi): "Q. But as far as specific benefits, can you articulate any specific benefits, not possible or speculative or general benefits? A. The way you phrase that question, I believe there, in fact, will be savings in G & A costs, there will be

situation today is substantially the same: for the most part, the Joint Applicants stated only vague platitudes about certain benefits that will allegedly accrue to Kentucky consumers as a result of the merger. In other instances where GTE and Bell Atlantic pay lip service to addressing some of the Commission's concerns as noted in the April 14, 1999 Order in Case No. 98-519, the information provided is still too sketchy and the alleged commitments still too uncertain and undefined for the Commission to find that Kentucky citizens will receive positive benefits from the merger.

a. <u>The proposed provision of CLASS services</u>

The Commission's April 14th Order required GTE and Bell Atlantic in their refiled merger case to "identify specifically those advanced services which will be made available in Kentucky as a result of the merger".[4] Aside from the question of whether CLASS services should be equated with the broadband voice and data services associated with the term "advanced services" by the Federal Communications Commission ("FCC"), the Commission should, and apparently does, seriously question whether the proposed provision of CLASS services is the most appropriate way for the Joint Applicants to provide a benefit to Kentucky consumers using the estimated $23.7 million[5] that the proposed provision of CLASS services would cost.

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savings in systems, we will take advantage of best back (sic) practices and I firmly believe that those benefits will come to the Kentucky consumer. I can't tell you the specifics and what form." Note that at the recently concluded hearings in this case, the Commission indicated that it intended for the record of the prior merger proceedings, Case No. 98-519, to be incorporated by reference into the record of these proceedings. See Case No. 99-296, Hearing Transcript, at 6-7.

[4] Case No. 98-519, *In the Matter of Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control*, Order (issued April 14, 1999), (hereinafter "April 14th Order), at 3.

[5] GTE's witness Mr. Reed confirmed during the hearing that the proposed $23.7 million expenditure for CLASS services was included in the $222 million proposed infrastructure commitment. Case No. 99-296, Hearing Transcript, at 104-05.

When asked to identify a single state or federal regulatory commission that had defined the term "advanced services" to include CLASS services, GTE's witness Mr. Kissell was unable to do so.[6] While the Commission correctly observed during the hearing that the Commission was well aware of what it meant by the term "advanced services", Sprint would point out that the FCC has also recently formulated a definition of "advanced services", a definition that includes "high speed, switched broadband, wireline telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, or video telecommunications using any technology."[7] Sprint believes that this Commission's definition of "advanced services" may indeed correspond in certain respects to the FCC's definition. If that is the case, the Commission may well conclude that the proposed offer of CLASS services is not responsive to the directive contained in the April 14th Order regarding those advanced services that will be made available in Kentucky as a result of the merger.

Apart from the question of whether CLASS services constitute "advanced services" is the important question of whether the Joint Applicants' offer to extend the provision of CLASS services to 100% of its local service territory in Kentucky is the best, or even an appropriate, use of such resources. According to GTE witness Mr. Reed, the proposed extension of CLASS services would only involve approximately 25,000 lines, or 6%, of the 400,000 residential access lines that GTE currently has in its

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[6] Case No. 99-296, Hearing Transcript, at 47: "Q. Can you identify for us this morning any state regulatory commission or FCC order that offers a definition of advance (sic) services that includes CLASS features? A. No, I mean, not off the top of my head. I mean, advance services, the definition of advance services is not an industry standard definition, it is not like CLASS. . . "

[7] CC Docket 98-147, *In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications Capability*, First Report and Order and Further Notice of Proposed Rulemaking, (released March 31, 1999), at 2, fn. 2.

Kentucky service territory.[8] The following exchange is indicative of the concerns raised at the hearing in this regard:

> Q. Well, did you hear the witness testify that GTE is not into some of these rural areas now just because it is not profitable? A. That's correct. Q. So if the money is spent and people still don't subscribe to these services that doesn't help the profit does it? A. No. sir, and I think that is why it is of significant benefit that is basically part of the merger commitment. Q. To give the people something they don't want or won't subscribe to? A. Well, I think some of them will, but as we have discussed not all of them will, but certainly some will.

Hearing Transcript, at 187 (Bell Atlantic witness Bone).[9] Sprint asserts that serious questions were raised at the hearing regarding the proposed provision of CLASS services as an appropriate response to the Commission directive in the April 14th Order regarding the implementation of advanced services in Kentucky. Accordingly, it is highly questionable whether the Joint Applicants' proposed extension of CLASS services can be considered as a positive benefit resulting from the proposed merger. Sprint's witness, Dr. Rearden, summarized these concerns during cross-examination:

> [T]he real issue, however, in this docket, in a merger is whether those benefits are a benefit of the merger or whether they could happen independently of the merger, and secondly, whether that would be the optimal thing to do with the funding that it takes to provide those services.

Case No. 99-296, Hearing Transcript, at 362-63 (Rearden).

b. <u>The Joint Applicants' proposed infrastructure "commitment"</u>

The April 14th Order also required the Joint Applicants in their refiled Application to "specify the mechanisms and safeguards which they will employ to ensure that service

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[8] Case No. 99-296, Hearing Transcript, at 116 (Reed).

[9] See also Case No. 99-296, Hearing Transcript, at 189-90: "Q (Commissioner Gillis). If you had the decision, Mr. Bone, to spend 24 million dollars to provide CLASS services to people in West Virginia, assuming they didn't have it, or to use that money in some other purpose such as rate reductions or other things as Mr. Willis mentioned other things, what do you think, in your opinion, would be the just use of

quality does not erode in Kentucky."[10] GTE and Bell Atlantic chose to primarily address this concern by proposing an infrastructure "commitment" on behalf of the merged entity of $222 million for the three years following the merger.[11] The evidence in this proceeding indicates, however, that the proposed commitment is decidedly not unconditional, and that the proposed level of the commitment is consistent with GTE's recent historical and currently estimated infrastructure spending levels for Kentucky. In other words, the Commission should view the alleged infrastructure "commitment" as the Joint Applicants offering to give Kentucky consumers 'the sleeves off their vests'.

During his testimony last week, the Joint Applicants' witness, Mr. Kissell, agreed that GTE had spent approximately $84.6 million in 1997 and $85.1 million in 1998 on infrastructure investment in Kentucky, and that the current estimate for 1999 is approximately $74 million.[12] Simple division will demonstrate that the Joint Applicants' "commitment" to invest $222 million over three years appears to be no different, in effect, from the levels that GTE has recently spent on infrastructure in Kentucky, and more specifically, what GTE anticipates spending on infrastructure in 1999. During cross-examination, GTE witness Mr. Reed performed the simple calculation:

> Q. Well, can you tell us in terms, just in general terms then is the term significant expenditure for 1999 greater than what you expect the budget to be for the next couple of years? A. It would be approximately the same because the 222 quick math is about 74,000,000 a year and that is approximately what we will spend in 1999.

Case No. 99-296, Hearing Transcript, at 104 (Reed).

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that money? A(Bell Atlantic witness Bone): "Well, that is a great question and certainly one that you are obviously toying with here. . ." See also Hearing Transcript, at 64-5 (Kissell)

[10] April 14th Order, at 3.

[11] Case No. 99-296, Reed Direct Testimony, at 9.

[12] Case No. 99-296, Transcript, at 20 (GTE witness Kissell).

c. **Little new information has been provided regarding "best practices"**

In the April 14th Order, the Commission ordered the Joint Applicants to "provide detailed information to the Commission in regard to the expected costs and savings attributable to the merger for the GTE South operation in Kentucky".[16] An analysis of "best practices" that the merged entity would likely adopt after the merger which would impact on the merged entity's Kentucky operations is germane to the discussion of merger savings attributable to GTE in Kentucky. Nevertheless, the Joint Applicants offered very little in the way of new information regarding the specific "best practices" that would impact the Kentucky operations after the merger.

The Joint Applicants continue to provide little detailed information regarding the anticipated savings produced from the adoption of each company's "best practices". With one exception, GTE's witness at the hearing could not identify specific practices that are followed by one firm that could lower costs when adopted by the combined firm.[17] Moreover, the Joint Applicants' witnesses Mr. Kissell and Mr. Bone admitted during the hearing in this matter that GTE and Bell Atlantic are not currently aware of better management practices that they have not adopted.[18] The Joint Applicants also failed to show that adoption of such practices by the combined firm would lower costs. Two firms may follow different practices, and have somewhat different costs, because each is

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you? A. I Mean, that is what I said and I'm racking my brain to think what those might be but, clearly, I think it isn't in this Commission's best interests for us to be making uneconomic investments."

[16] April 14th Order, at 4.

[17] Case No. 99-296, Hearing Transcript, at 32 (Kissell) (Bell Atlantic intraLATA toll marketing practices). It is interesting to note that at least two other witnesses for the Joint Applicants were unaware that any specific "best practices" had been identified. See Case No. 99-296, Hearing Transcript, at 156 (Bone), and 284-85 (Shore).

[18] Case No. 99-296, Hearing Transcript, at 35 (Kissell): "Q. . . . [T]o your knowledge is GTE currently aware of better management practices that it has not adopted? A. No, I believe that we are aware of other companies having better results and that our teams have spent a significant amount of time trying to understand why other companies have been able to achieve greater results than GTE in attempting to do the root cause. . . " See also Hearing Transcript, at 153 (Bone).

following practices and experiencing costs adapted to the specific competitive environment of each. Detailed information capable of addressing such issues is needed to evaluate the claim that adoption of best practices could lower costs. GTE witness Mr. Kissell's "name dropping" of one potential best practice, Bell Atlantic's intraLATA toll marketing practices, does not constitute such evidence. Furthermore, at least some of the claimed cost savings from adoption of best practices may be achievable without the merger. As Sprint noted in its prefiled testimony in the prior merger proceedings, even if adoption of "best practices" could be said to lower costs, a merger may not be needed for the practice to spread from one firm to another.[19]

d. The speculative nature of the planned competitive local entry into Louisville

GTE and Bell Atlantic continue to insist that they plan, after completion of their merger, to offer competing local exchange service in one Kentucky city, Louisville, which is now served by BellSouth. However, the Joint Applicants have admitted that details associated with this initiative are still under development. Moreover, the Applicants have not indicated that they have made plans for the combined firm to enter and compete anywhere in Kentucky other than in Louisville.[20] Without the merger, it appears that either GTE or Bell Atlantic, or both, would be capable of entering and competing as a supplier of local service in Louisville.

When asked to provide details of the planned competitive entry into Louisville at the hearing, GTE's witness Mr. Kissell was only prepared to discuss the planned entry in

[19] See Case No. 98-519, Sprint Direct Testimony, at 68-69.
[20] See Case No. 99-296, Hearing Transcript, at 60 (Kissell): "[T]he only area that we have done a specific analysis on is Louisville. . ."

general terms.[21] Fundamental pieces of the planned entry into Louisville, such as what name the merged entity's CLEC in Louisville will use,[22] are still under consideration. The continued absence of critical details brings into question the importance that the Joint Applicants attach to acting on their publicly stated "intent" to enter the competitive local market in Louisville.

Also, it has not been demonstrated that the benefit of increased local entry is a benefit that can be realized only through the proposed merger. As noted in Sprint's testimony in the prior merger docket, even if the merged firm were to enter additional local markets, a benefit or efficiency could be claimed to result from the merger only to the extent that such entry exceeded the sum of the separate entry efforts of BA and GTE absent the merger.[23]

Furthermore, assuming that the merged firm would in fact enter and provide out-of-region local telephone service, and that the resulting local entry would exceed that of GTE plus Bell Atlantic absent the merger, questions would remain about the magnitude of the resulting benefits to Kentucky consumers. GTE and Bell Atlantic provide little evidence to show that they would expand to serve residential and most small businesses. Moreover, GTE's witness Mr. Kissell could not identify any benefits from the merged

[21] Case No. 99-296, Hearing Transcript, at 41. See also Hearing Transcript, at 45 (Kissell): "Q. You mentioned resell and you mentioned an agreement with a competitive access provider? A. That's correct. Q. But you can't tell us whether any or all of those methods would be used? A. No."
[22] Case No. 99-296, Hearing Transcript, at 58 (Kissell).
[23] Case No. 98-519, Sprint Direct Testimony, at 57-58.

entity's planned competitive entry into Louisville that would accrue to ratepayers in GTE's existing local exchange franchise territory in Kentucky.[24]

III. THE JOINT APPLICANTS' COST SAVINGS ESTIMATES ARE NOT RELIABLE

The testimony at the recently concluded hearing demonstrated that the estimated cost savings resulting from the proposed merger, both on a company-wide basis for the merged entity, and on a Kentucky-specific basis, are unreliable and should be given little, if any, weight by the Commission in making its determination in this matter. Accordingly, Sprint asserts that GTE and Bell Atlantic have failed to provide an adequate response to the Commission's directive from its April 14th Order that the "Joint Applicants must provide detailed information to the Commission in regard to the expected costs and savings attributable to the merger for the GTE South operation in Kentucky", which was to include "an analysis of the total projected merger costs and savings attributable to the merger for the GTE South operation in Kentucky."[25]

GTE witness Mr. Shuell's forecasts of anticipated merger savings and costs are estimates of estimates. During his testimony, Mr. Shuell acknowledged that in preparing his initial forecasts of merger savings and costs immediately prior to the announcement of the proposed GTE/ Bell Atlantic merger, he reviewed publicly available, "extremely high level" financial information[26] in connection with the Bell Atlantic-NYNEX merger, the SBC-Pac Tel merger, and the proposed SBC-Ameritech merger. Mr. Shuell also admitted that at the point in time immediately prior to the merger announcement when he

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[24] Case No. 99-296, Hearing Transcript, at 90 (Kissell): "Q. . . .Are there any benefits from being in the Louisville market that will be accrued to the ratepayers in your franchise territory? A. Directly, no. I mean I can't come up with any off the top of my head."
[25] April 14th Order, at 4.

was preparing the estimates of merger costs and savings, he did not review any specific company financial data in preparing his estimates.[27] According to Mr. Shuell, after the merger announcement in July, 1998, the "August 21" team as defined in Mr. Shuell's prefiled testimony[28] used in part Mr. Shuell's initial estimates of merger savings and costs to develop its own estimates.[29] Mr. Shuell also acknowledged that he has not attempted to update his original estimate of merger savings and costs.[30] Based upon these disclosures, the Commission cannot place any great reliance on the estimates of corporate level merger savings and costs. Apparently even GTE does not have any great confidence in these estimates, since it does not want the Commission to set rates on the basis of the estimates. See Case No. 99-296, Joint Application (filed July 9, 1999), at 21:

> Furthermore, a rate reduction based on estimated, as opposed to actual, cost reductions ignores the fact that GTE South will continue to be regulated on a rate-of return basis and make regular financial reports to the Commission. Accordingly, after savings are actually and fully realized by GTE South, and if these savings increase GTE South's rate-of-return beyond that currently allowed by the Commission, the Commission will have the ability to act appropriately.

In addition, the Kentucky-specific estimates of merger savings and costs are equally unreliable. GTE witness Mr. Shore admitted that his Kentucky-specific estimates were substantially reliant upon Mr. Shuell's corporate level estimates, and to the extent that Mr. Shuell's estimates are inaccurate, Mr. Shore's Kentucky-specific estimates are also inaccurate.[31]

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[26] Case No. 99-296, Hearing Transcript, at 252 (Shuell).
[27] Case No. 99-296, Hearing Transcript, at 253-54 (Shuell).
[28] Case No. 99-296, Shuell Direct Testimony, at 8.
[29] Case No. 99-296, Hearing Transcript, at 255 (Shuell).
[30] Case No. 99-296, Hearing Transcript, at 257 (Shuell).
[31] Case No. 99-296, Hearing Transcript, at 277 (Shore): "Q. So is it fair to say that your analysis is substantially dependent on Mr. Shuell's forecast of merger savings and total merger costs? A. Yes, that's correct. Q. And to the extent that Mr. Shuell's forecast of aggregate merger savings and costs are inaccurate your analysis of the Kentucky portion of the merger savings and costs would likewise be

IV. THE PROPOSED MERGER WILL PREVENT COMPETITION BETWEEN BELL ATLANTIC and GTE IN LOCAL EXCHANGE MARKETS

In his prefiled testimony, Sprint's witness, Dr. David T. Rearden, discussed the fact that the local service market in GTE's franchised territory is dominated by GTE with few or no competitive alternatives available to most customers. With a market share of 99.3%, GTE is by far the dominant local service provider in territory. The threat of potential entry provides an incentive for GTE to reduce local/access rates or, at least, to withhold requests for increases. The elimination of even one potential entrant, as is the case with the elimination of Bell Atlantic, can significantly reduce the incentive for such good behavior on the part of GTE. By eliminating a potential entrant, the merger enables GTE to charge higher prices than it otherwise could. Case No. 99-296, Rearden Direct Testimony (filed August 16, 1999), at 15.

Contrary to the testimony of the Joint Petitioners, Bell Atlantic is a likely entrant into GTE's local service territory. Bell Atlantic has all the attributes to be successful as a CLEC in the Kentucky market. Bell Atlantic has extensive experience as a supplier of local services, possesses fully functioning and time-tested OSS and billing systems that are critically important to the provision of local exchange and exchange access services, possesses a clear marketing message based on scores of years of local service provision and has a well-known brand name.

As Sprint's witness stated, the extent of potential competition is an important consideration in this proceeding. Claims by Joint Applicants that the Commission should give little weight to potential competition should be rejected. The growth of local

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inaccurate? A. Inasmuch as it is an allocation using the starting point which were Mr. Shuell's numbers yes. If there was a change in that number it would change the amount allocable to the state of Kentucky.

competition and its benefits to consumers are presently much more potential than actual. Accordingly, it is important for this Commission to recognize that the proposed merger preempts some level of local competition, even when Bell Atlantic has stated that it had no entry plans for GTE's local service territories in Kentucky prior to the merger. Rearden Direct Testimony, at 16.

V. THE POTENTIAL FOR ANTI-COMPETITIVE BEHAVIOR BY THE MERGED ENTITY SUBSTANTIALLY OUTWEIGHS ANY MARGINAL BENEFIT OF THE PROPOSED MERGER

a. The merger increases GTE's incentive and ability to harm local competition

Sprint's witness noted that the increase in the incentives and ability of the merged firm to disadvantage rivals harms Kentucky consumers because it is likely to lead to increased exclusionary behavior. Rearden Direct Testimony, at 17. By limiting competition, the merged Bell Atlantic/GTE can maintain local exchange prices above competitive levels or provide less attractive service than otherwise, thus harming Kentucky consumers. In addition, the proposed merger also gives the combined entity an increased incentive and ability to disadvantage rivals in its service territories outside of Kentucky. The effects of this behavior would "spill over" into Kentucky, further adversely affecting Kentucky consumers.

GTE currently has dominant market power in the sale of inputs necessary to CLECs seeking to provide service in GTE's territory. This market power gives GTE the ability to disadvantage rivals by some combination of raising the price, lowering the quality and/or the availability of these inputs. Bell Atlantic also has the incentive to engage in similar exclusionary behavior, since it can profit by disadvantaging rival

CLECs in its home territory. The merged Bell Atlantic/GTE's incentives to engage in exclusionary behavior would increase as a result of the merger. In other words, after the merger, the combined Bell Atlantic/GTE has a greater incentive to engage in exclusionary behavior in GTE's Kentucky territory than GTE does currently. Rearden Direct Testimony, at 18. The combined entity will stand to gain more from exclusionary behavior that either of the two companies independently would enjoy.

For the foreseeable future, GTE and other ILECs will be the only practical suppliers of access or interconnection inputs in their service territories. It is the recognition of this market power that serves as the basis for state and federal regulation of access charges, the resale discount of ILECs' service, the provision and prices of UNEs and interconnection. In Kentucky, GTE controls 99.6% of the access lines in its franchised territory. Rearden Direct Testimony, at 19. This dominant market power is likely to continue.

GTE has the ability to limit competition from rival suppliers of retail services in the Kentucky territory it serves when CLECs have no effective substitutes for the interconnection inputs supplied by GTE. Absent regulation, GTE might act on this ability by increasing the prices it charges to CLECs for interconnection or other inputs. Higher input prices directly increase costs for CLECs, and limit their ability to obtain customers and put competitive pressure on GTE's retail prices. In turn, GTE could charge higher retail prices than it would otherwise, while its high wholesale prices allow it to capture supracompetitive profits.

Alternatively, GTE could adopt non-price strategies to raise CLECs' costs or otherwise reduce the attractiveness of their services to consumers. These strategies would permit GTE to maintain high retail prices and market share. Accordingly, GTE could generate higher profits at the retail level. In response to successful exclusionary behavior, CLECs must either incur higher costs to offer a given quality of service, or offer a lower quality service for the same cost. Either alternative degrades CLECs' offerings and hinders their ability to compete. Indeed, some competing services may not be offered because entrants cannot attract a sufficient number of subscribers at the price at which it can compete. Therefore, any change that leads to increased exclusionary behavior weakens GTE's CLEC rivals. This, in turn, harms Kentucky consumers through higher local exchange rates, or lower-quality local exchange service, or both. On the basis of the foregoing, Sprint's witness concludes that GTE has the ability to disadvantage its retail rivals. Rearden Direct Testimony, at 17-22.

GTE is unique compared to the RBOCs because GTE has absolutely no incentive to cooperate and open their markets to local competition. The carrot of long distance competition does not apply to GTE. Therefore, GTE has incentive to obstruct and delay competition in their territory. Like other ILECs, GTE not only sells access or interconnection inputs in upstream markets, but it also competes in downstream markets with the same CLECs and IXCs to whom they sell inputs needed to reach retail customers. GTE is likely to find that exclusionary behavior in the supply of inputs to CLECs and IXCs protects the profits they earn now and expect to earn in the future at the retail local exchange level. The FCC has articulated its ongoing concern with the incentive and ability of ILECs to frustrate the growth of local exchange competition:

> Because an incumbent LEC currently services virtually all subscribers in its local serving area, an incumbent LEC has little economic incentive to assist new entrants in their efforts to secure a greater share of that market. An incumbent LEC also has the

> ability to act on its incentive to discourage entry and robust competition by not interconnecting its network with the new entrant's network or by insisting on supracompetitive prices or other unreasonable conditions for terminating calls from the entrant's customers to the incumbent LEC's subscribers.[32]

The consistency and resourcefulness with which GTE, Bell Atlantic, and other ILECs have used legal and regulatory maneuvers to hamper the introduction of competition indicates that protection of their current local exchange market positions is valuable. See Rearden Direct Testimony, at 23.

b. <u>The merger increases GTE's incentive regarding exclusionary behavior towards CLECs</u>

The merger would increase the incentive for Bell Atlantic and GTE to engage in behavior to exclude CLECs from Kentucky, or to limit their growth. The merger would also increase the merged entity's ability to engage in such practices. In his prefiled testimony, Sprint's witness discusses how these incentives are increased by the merger. The merger would increase the incentive of Bell Atlantic and GTE to delay, deny, or degrade the provision of interconnection inputs to Kentucky CLECs because the merged firm would realize greater benefits from this behavior than would GTE alone. When GTE competitively weakens a rival in Kentucky, it may also weaken that rival throughout Bell Atlantic's region. While Bell Atlantic may already benefit from GTE's exclusionary behavior, GTE itself receives no profits from the benefits to Bell Atlantic. Rearden Direct Testimony, at 24. Therefore, in deciding the extent to which it will disadvantage CLECs

[32] CC Docket No. 96-98, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996*, First Report and Order (released August 8, 1996), Paragraph 10 (footnote omitted).

c. GTE's and Bell Atlantic's increased incentives to harm local competition will harm Kentucky consumers

Dr. Rearden concluded that increased incentives to exclude are likely to lead to increased efforts at exclusion, which harms the development of local competition. Because this increases the difficulty of entering local exchange markets, barriers to entry are higher than they would otherwise be. Thus, rates for local exchange services typically priced above cost, such as business lines and custom calling features, or new services such as ADSL would be priced much higher than in a competitive market. Additionally, these services may not become as widely available to Kentucky consumers as otherwise would be the case.

Kentucky consumers are also likely to be harmed by the behavior of Bell Atlantic if the merger is approved. For the same reason that GTE has increased incentives to foreclose rivals after the merger, so too does Bell Atlantic in its service territories. Prior to the merger, when Bell Atlantic engaged in exclusionary behavior toward CLECs in its service territories, it would likely benefit GTE and other ILECs. Prior to the merger, however, Bell Atlantic fails to take these "spillovers" into account. As Bell Atlantic currently has no ownership interest in GTE, it does not share in the increase in GTE's profits. After the merger, Bell Atlantic would benefit from the gains to GTE, and thus has increased incentives to undertake exclusionary behavior toward rivals. Accordingly, the merger adversely affects Kentucky consumers not just directly through increased exclusionary behavior by GTE, but it also adversely affects Kentucky consumers indirectly through increased exclusionary behavior by Bell Atlantic. Rearden Direct Testimony, at 38.

in Kentucky, GTE does not take these "spillover" effects on the profits of Bell Atlantic into account.

Following the merger, the merged firm does benefit from the effects of its exclusionary activity in Kentucky on competition in Bell Atlantic territory. Therefore, the merged firm incorporates these "spillovers" in choosing the level of effort undertaken to hamper the competitive efforts of CLECs in Kentucky. In other words, the proposed merger makes exclusionary behavior in Kentucky look more profitable to GTE. Because the gains from exclusion are "internal" to the combined firm, it also has an incentive to increase the amount of discrimination it undertakes.

Sprint's witness discusses the nexus between the increase in the incentives to exclude, and the effect that this increase will have on exclusionary behavior. GTE and other ILECs already have substantial incentives to try to exclude CLECs. The merger increases those incentives, and that increase could be expected to affect the range and extent of exclusionary behavior. When an ILEC like GTE is deciding the extent of its exclusionary behavior, it weighs the expected costs of that behavior, such as possible regulatory penalties, against the payoffs or gain in profits. The full extent of possible exclusionary behavior is unlikely to be exhibited by an ILEC, due to the resulting increase in the probability of detection by regulators and the associated penalties. However, the greater gains from exclusion stemming from the merger justify a greater risk of detection. This effect is exacerbated by the increased ability of the merged firm to engage in behavior that disadvantages its CLEC rivals because detection becomes more difficult after the merger. Rearden Direct Testimony, at 25.

Dr. Rearden stated that the merger affects the ability of GTE to disadvantage its CLEC competitors because the merger would increase the ability of GTE to engage in practices to disadvantage its local exchange rivals. As a result of the merger, one less large ILEC would be available against which to compare GTE's performance. Because so few such ILECs are currently independent pre-merger, this reduction might have a substantial effect on the ability of CLECs to adequately evaluate the responses of GTE to their provisioning requests. Rearden Direct Testimony, at 39. Reducing the number of large ILECs leaves a smaller number of "checks" on the reasonableness of any particular ILEC's response to a given interconnection request. Thus, the ability of GTE and of other ILECs to engage in anti-competitive behavior would be increased by the merger because the likelihood of detection is reduced.

At the same time, the kinds of practices the merged entity might adopt would likely differ from those made absent the merger. If GTE offered a practice or service that did not prevent CLEC entry because GTE found it profitable to do so, CLECs could use that pro-entry behavior as an example of feasibility in other regulatory arenas. Bell Atlantic might then be forced to adopt the GTE practice. GTE has no reason to consider the effects of the practices it adopts on the profits of Bell Atlantic absent the merger. In contrast, the merged entity would calculate the effects of adopting a pro-entry practice on the profits of both GTE and Bell Atlantic. Some practices which benefit CLEC entry and which GTE might have adopted, would not be adopted after the merger. This coordination could also reduce the ability of CLECs and regulatory authorities to identify and penalize anti-competitive behavior. Rearden Direct Testimony, at 39-40.

VI. THE PROPOSED MERGER WILL HARM COMPETITION IN LONG-DISTANCE MARKETS

In his prefiled testimony, Sprint's witness, Dr. Rearden, also concluded that GTE has the ability to harm competition in the interLATA and intraLATA toll markets. As long as switched access is priced several times higher than cost, GTE has a significant artificial cost advantage over other IXCs that can be used to harm competition in the interLATA market.[33] In particular, Bell Atlantic's entry into the interLATA market prior to reductions in switched access prices could very well reduce the amount of competition that customers in Kentucky enjoy today, thus harming the public interest.

In the early 1980s, AT&T was divested of its local exchange companies. The Modified Final Judgement ("MFJ") recognized that the BOC/AT&T combination need to be restrained because it had enormous market power because of their monopoly bottleneck control over the provisioning of local switched access. The divesting of AT&T's local and long distance business was to prevent the combined BOC/AT&T powerhouse from leveraging local access which could have prevented robust long distance competition from ever developing. Sprint's witness concluded that many of the same conditions that existed in 1982 still exist today. As in 1982, the BOCs still control nearly 100% of the local access lines in each of the states where they operate as well as a monopoly, or near monopoly, in the provisioning of switched access in their operating territories. Accordingly, the concerns expressed by the DOJ and the Court are still valid. A Bell Operating Company retains the ability to leverage its huge market size and market

[33] Dr. Rearden estimates that Bell Atlantic/GTE's average price of interstate and intrastate switched access across its combined 30+ states is roughly 2¢ per minute which is priced 4 - 6 times greater than cost.

concentration in urban areas to subsidize interexchange prices with profits earned from its monopoly services. See Rearden Direct Testimony, at 41-43.

Sprint's witness discussed in his prefiled testimony how Bell Atlantic's and GTE's access cost advantage works. If the IXCs and the merged entity have the same costs for providing the toll network portion of interLATA toll calling, then the only cost difference is the price they each pay for switched access to originate and terminate toll calls. The cost to the IXCs for originating and terminating a call in Bell Atlantic/GTE's territory averages approximately 2¢ per minute on each end. However, the cost to Bell Atlantic/GTE for originating and terminating a call in their own territory is estimated to be only ¼ - ½¢ per minute on each end. While it is true that the merged entity's long distance affiliate will record an entry on its accounting books that it "paid" the merged entity's local affiliate 4¢ per minute for access, that "cost" is only a paper transaction between affiliates and not a real economic cost for the combined Bell Atlantic/GTE entity as a whole. Bell Atlantic and GTE are merely shifting dollars from their long distance affiliate to their local affiliate. The 4¢ per minute access cost for the merged entity's long distance affiliate is a 4¢ per minute access revenue stream for the merged entity's local affiliate. The local affiliate will also record an expense of approximately 1/4 - 1/2¢ per minute for providing the access minute.

The accounting books that matter most to Bell Atlantic/GTE and its shareholders are the accounting books of the parent corporation which consolidates the revenues and expenses of all its affiliates. The cost that the consolidated Income Statement will reflect is the real economic cost that the combined entity incurs in providing access to itself (i.e., to its long distance affiliate). Based on the numerical example included in Dr. Rearden's prefiled testimony, this cost is less than 1¢ per minute. Rearden Direct Testimony, at 44-45.

Accordingly, the fact that the merged entity's long distance affiliate is a separate subsidiary with separate accounting records does not eliminate this bottom line advantage to the merged entity's parent corporation. On average, Bell Atlantic and GTE enjoy a 3¢ per minute switched access cost advantage when competing with the IXCs for interLATA toll traffic for all traffic that originates and terminates to a customer served by the Bell Atlantic/GTE local affiliate. Dr. Rearden observed that in a competitive market where margins are calculated in tenths of cents, the merged entity's 3¢ per minute cost advantage in switched access can be devastating to its IXC competitors. Rearden Direct Testimony, at 45.

Sprint's witness further explained that if the cost of providing the toll portion of interLATA toll calling is approximately 3¢ per minute for both the IXCs and the merged entity, then IXCs face a cost of 7¢ per minute to provide toll service (4¢ for switched access plus 3¢ for their toll network), while the merged entity faces a cost of only 4¢ per minute to provide toll service (1¢ for switched access plus 3¢ for their toll network). Even if the merged entity is required to impute full access charges and has to price its interLATA toll service at 7¢ per minute, it will still enjoy a 3¢ per minute profit margin. In contrast, the IXCs will be forced to match Bell Atlantic/GTE's 7¢ per minute price to stay competitive. However, at 7¢ per minute, the IXCs are receiving zero profit and will soon be driven out of the market. Rearden Direct Testimony, at 46. Dr. Rearden stated that the anti-competitive advantage that Bell Atlantic/GTE could exercise is often referred to as the "price squeeze."[34] The subsidies embedded in access charges allow the merged entity to capture market share from the IXCs even if the combined Bell Atlantic/GTE is much less efficient.

Sprint's witness concluded that the merger would increase GTE's ability to implement a price squeeze. An ILEC such as GTE or Bell Atlantic needs a sufficient base of customers from which to execute a successful price squeeze strategy. GTE, by itself, has limited ability to leverage its access subsidies to underprice competitors in the interLATA toll market because its properties are scattered across several states and are less concentrated in any one state than an RBOC's properties. While GTE can leverage the access subsidies on the long distance calls that originate with its customers, it usually cannot do so on the terminating end of the call because the vast majority of those calls will terminate to a non-GTE customer. However, when GTE combines with Bell Atlantic to capture more than one-third of all access lines in the United States, GTE gains the size and scope necessary to successfully implement a price squeeze. In this situation, a significant increase in the percentage of interLATA toll calls that originate with GTE's customers will now terminate to the combined GTE/Bell Atlantic's customer. This gives GTE a greater ability to leverage the switched access subsidies on both ends of the call. Inasmuch as a significantly larger percentage of GTE's dollars for terminating switched access will now be going to itself through the combined GTE/Bell Atlantic entity, GTE has a much greater ability to implement a price squeeze. Rearden Direct Testimony, at 51-52.

[34] For an example of a price squeeze in GTE's local service territory in Missouri, See Rearden Direct Testimony, at 48-50.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing Brief of Sprint Communications Company L.P. in Docket No. 99-296 via facsimile as indicated by an asterisk (*) and by United States first class mail, postage pre-paid and properly addressed to the following:

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This 30th day of August, 1999.

Danielle Etzbach

Sprint Communications Company L.P.
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August 26, 1999

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RE: Petition for Confidential Protection
Case No. 99-296

Dear Mr. Foster,

The Commission has received the joint petition GTE Corporation and Bell Atlantic Corporation filed August 9,1999, to protect as confidential information contained in their responses to Item 4 of Sprint Communications Company L.P.'s data requests. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition and it shall be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Helen C. Helton
Executive Director

cc: All parties of record.

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www.psc.state.ky.us
(502) 564-3940

August 26, 1999

Joe W. Foster
GTE Corporation
NC999015
4100 N. Roxboro Road
Durham, NC 27704

RE: Petition for Confidential Protection
Case No. 99-296

Dear Mr. Foster,

The Commission has received the joint petition GTE Corporation and Bell Atlantic Corporation filed August 9, 1999, to protect as confidential information contained in their responses to Items 1 and 3 of the Commission's data requests. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition and it shall be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,

Helen C. Helton

Helen C. Helton
Executive Director

cc: All parties of record.

Larry D. Callison
State Manager
Regulatory Affairs & Tariffs

GTE

GTE Service Corporation

KY10H072
150 Rojay Drive
Lexington, KY 40503
606 245-1389
Fax: 606 245-1721

August 2, 1999

AUG 02 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Post Office Box 615
Frankfort, Kentucky 40602

Re: Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control - Case No. 99-296

Dear Ms. Helton:

As you know, the hearing in the above matter is currently set for August 24, 1999. We have recently determined that one of the Company's witnesses, Mr. William Griswold, has a previous commitment on that date which he is unable to reschedule.

In light of this development, the Company intends to have Mr. Jeffrey Kissell, another of its witnesses in the case, to adopt the testimony which had been pre-filed by Mr. Griswold. This will reduce the overall number of Company witnesses to eight individuals. This change will not prejudice any party and should not otherwise impact the efficient administration of the proceeding.

I would be most appreciative if you would bring this filing to the attention of the Commission, and should you have any questions about the enclosed material, please do not hesitate to contact me at your convenience. Thank you for your consideration in this matter.

Yours truly,

Larry D. Callison

Larry D. Callison

c: Hon. Ann Louise Cheuvront - Assistant Attorney General
Hon. William R. Atkinson - Sprint

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 29, 1999

To: All parties of record

RE: Case No. 99-296

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Larry D. Callison
State Manager-Regulatory Affairs
GTE South, Inc.
150 Rojay Drive
Lexington, KY 40503

Hon. William R. Atkinson
Hon. Carolyn Tatum Roddy
Sprint
3100 Cumberland Circle
Atlanta, GA 30339

Joe W. Foster
GTE Service Corporation
NC999015
4100 North Roxboro Road
Durham, NC 27704

Hon. John N. Hughes
124 W. Todd Street
Frankfort, KY 40601

Honorable John Rogovin
& Honorable Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteen Street, N.W.
Washington, DC 20004

John Walker
Bell Atlantic Corporation
1320 North Courthouse Road
8th Floor
Arlington, VA 22201

Honorable Jeffrey J. Yost
Attorney at Law
Jackson & Kelly
175 East Main Street, Suite 500
P. O. Box 2150
Lexington, KY 40595 2150

Michael D. Lowe
Bell Atlantic
1320 N. Court House Road
8th Floor
Arlington, VA 22201

Hon. Ann Louise Cheuvront
Assistant Attorney General
Office of Rate Intervention
1024 Captial Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	))))	CASE NO. 99-296

O R D E R

This matter arising upon the motion of the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("Attorney General"), filed July 22, 1999, pursuant to KRS 367.150(8), for full intervention, such intervention being authorized by statute, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that the motion is granted and the Attorney General is hereby made a party to these proceedings.

Done at Frankfort, Kentucky, this 29th day of July, 1999.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 26, 1999

To: All parties of record

RE: Case No. 99-296

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie J. Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

arry D. Callison
State Manager-Regulatory Affairs
GTE South, Inc.
150 Rojay Drive
Lexington, KY 40503

Hon. William R. Atkinson
Hon. Carolyn Tatum Roddy
Sprint
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Hon. Ann Louise Cheuvront
Assistant Attorney General
Office of Rate Intervention
1024 Captial Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	) CASE NO. 99-296

O R D E R

IT IS ORDERED that GTE Corporation ("GTE") and Bell Atlantic Corporation ("Bell Atlantic") (hereinafter "Joint Applicants"), shall file the original and 10 copies of the following information with the Commission no later than August 9, 1999, with a copy to all parties of record. Each copy of the data requested shall be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet shall be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions related to the information provided. Careful attention should be given to copied materials to ensure that they are legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. William Griswold states in his testimony that GTE estimates it will cost $23.7 million to expand CLASS services to 100 percent of GTE's territory. What

percentage of this investment will be recovered by revenues from these new services? Explain in percentages of investment per year.

2. Refer to page 2 of the Joint Application. Provide a detailed schedule for the implementation of extending advanced CLASS services to 100 percent of GTE's exchanges in Kentucky.

3. Refer to page 2 of the Joint Application. Addressing the proposed $222 million investment over 3 years, provide the following:

a. A detailed schedule of what equipment or services will receive this investment.

b. A detailed schedule of where this money will be invested.

c. A detailed schedule of when this investment will take place.

d. Would GTE invest this money in the Kentucky service area regardless of the applicants proposed merger? Explain.

4. Provide the following figures:

a. The percentage of access lines GTE-Kentucky's customers represent relative to the total number of access lines of the merged entities.

b. The percentage of revenue GTE-Kentucky's customers represent relative to the total revenue of the merged entities.

5. Refer to page 12 of Mr. Griswold's July 9, 1999 testimony.

a. Provide a detailed schedule of the products and services available through GTE's CLASS services.

b. Provide a schedule of currently planned levels of CLASS services expansion in Kentucky.

c. Would GTE upgrade these switches as described on page 12 of Mr. Griswold's testimony without the proposed merger?

6. Refer to page 23 of Mr. Griswold's July 9, 1999 testimony. Explain why GTE needs to wait until the merger between the parent companies is consummated before implementing certain identifiable "best practices."

7. Refer to page 11 of John Blanchard's July 9, 1999 testimony. Explain in detail how funding will be appropriated for capital expenditures in Kentucky prior to the realization of merger savings.

8. Refer to page 4 of Dr. William E. Taylor's July 9, 1999 testimony. Dr. Taylor states that "in the short run, the larger competitor that the merger would create should be able to obtain better prices for the transport services it resells from its facilities-based competitors." Will the merged company realize these advantages? Explain.

9. Refer to page 9 of the July 9, 1999, testimony of Paul R. Shuell. Describe the specific role for each of the eight Merged Integration Teams formed by the Joint Applicants.

10. Refer to Stephen L. Shores' testimony of July 9, 1999. According to Schedule B.5, the total net merger savings attributable to GTE in Kentucky is $6.4 million after 3 years. Explain why this figure does not correspond with the $7.2 million figure given by the companies in their Joint Application.

11. Refer to the July 9, 1999 testimony of Michael W. Reed. At page 10, line 3, reference is made to tariff filings to be made in 2000 or 2001. Fully explain. (See also the Joint Application page 2.)

Done at Frankfort, Kentucky, this 26th day of July, 1999.

By the Commission

ATTEST:

Helen C. Helton
Executive Director

Sprint

William R. Atkinson
Attorney, State Regulatory

3100 Cumberland Circle
Atlanta, GA 30339
Voice 404 649 6221
Fax 404 649 5174
bill.atkinson@mail.sprint.com

July 23, 1999

VIA FEDERAL EXPRESS

RECEIVED
JUL 26 1999
PUBLIC SERVICE COMMISSION

Helen C. Helton, Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

In Re: Case No. 99-296 – Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control

Dear Ms. Helton:

Enclosed please find for filing an original and ten (10) copies of Sprint's First Data Requests and Interrogatories to GTE Corporation and Bell Atlantic Corporation in the above referenced proceeding.

An extra copy is also included which I ask that you please date stamp and return in the enclosed reply envelope for my file.

Thank you for your assistance in this matter. Should you have any questions, please feel free to contact me.

Sincerely,

William R. Atkinson

William R. Atkinson

WRA/de
Enclosures
cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Joint Application of Bell Atlantic Corporation and GTE Corporation For Order Authorizing Transfer of Utility Control	))))	CASE NO. 99-296

SPRINT'S FIRST DATA REQUESTS AND INTERROGATORIES TO GTE CORPORATION AND BELL ATLANTIC CORPORATION

Pursuant to the procedural directives contained in the Commission's Order, issued July 15, 1999, in the above referenced proceeding, Sprint Communications Company L.P. ("Sprint") now issues the following data requests and interrogatories to GTE and Bell Atlantic (collectively "Joint Applicants").

DEFINITIONS AND INSTRUCTIONS:

A. DEFINITIONS

1. "GTE" means GTE Corporation, GTE South, Inc., GTE Communications Corporation, GTE Wireless of the Midwest, Inc., GTE Wireless of the South, Inc., GTE Mobilnet of Clarksville, Inc., Kentucky RSA No. 1 Partnership, their subsidiaries, affiliates, agents, servants, attorneys, investigators, employees, ex-employees, other representatives and others who are in possession of, or who may have obtained information for or on behalf of any of the above mentioned persons or entities.

2. "Bell Atlantic" or "BA" means Bell Atlantic Corporation, Bell Atlantic Communications, Inc., NYNEX Long Distance Company, d/b/a Bell Atlantic Long Distance, their subsidiaries, affiliates, agents, servants, attorneys, investigators, employees, ex-employees, other representatives and others who are in possession of, or who may have obtained information for or on behalf of any of the above mentioned persons or entities.

3. "Sprint" means Sprint Communications Company, L.P., its subsidiaries, affiliates, agents, servants, attorneys, investigators, employees and ex-employees.

4. "Document" includes microfilm, letter, memorandum, policy, circular, minute book, telegram, chart, electronic mail, etc., and any other retrievable information in computer storage, which should be produced in printed form. GTE and BA should specifically identify any instances where either withholds material because it does not consider the material to be a "document".

5. "Identify", "Identity", or "Identification" when used in reference to a document means to state the type of document (e.g., computer stored information, microfilm, letter, memorandum, policy, circular, minute book, telegram, chart, etc.) or some other means of identifying it, its present location and custodian, a description and the data on which it was made, prepared, or received. If any such document was but is no longer in BA or GTE's

possession or subject to its control, state what disposition was made of it, and if destroyed or disposed of by operation of a retention policy, state the retention policy. The term "identify" when used in respect to an individual means to state the person's full name, present position and business affiliation, the current business address, or if not known, the person's current home address and telephone number. The term "identify", when used with respect to a business entity means to furnish the business entity's name and address.

6. "Relate" or "relating" as used herein shall mean constituting, discussing, reflecting, embodying, evidencing, identifying, memorializing, mentioning, substantiating, referring, or otherwise pertaining, in whole or in part, to the subject matter of the request.

7. The term "describe" when used in respect to an occurrence, event, activity or any other transaction means to provide a complete and detailed list of its nature, its time and place, and to identify the persons present and involved. The term "describe", when used with respect to a document, means to provide a complete and detailed description of its nature and contents. The term "describe", when used with respect to a communication other than a document, means to provide a complete and detailed description of its nature and contents.

8. The term "BA territory" means all telephone exchanges operated by BA or its affiliates in the states that BA is an incumbent local exchange carrier as defined by Section 251(h) of the Telecommunications Act of 1996.

9. The term "GTE territory" means all telephone exchanges operated by GTE or its affiliates in the states that GTE is an incumbent local exchange carrier as defined by Section 251(h) of the Telecommunications Act of 1996.

10. The terms "merger" or "proposed merger" mean the merger proposed by BA and GTE as described in the "Joint Application Of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control" ("Joint Application") and the materials relating thereto, filed with the Commission on July 9, 1999.

11. The terms "merged entity" or "proposed merged entity" mean the BA entity if the merger described in the "Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control" filed with the Commission on July 9, 1999, is approved by all relevant regulatory and governmental authorities and closes according to the terms described in the Joint Application.

INSTRUCTIONS

1. The obligation of GTE and BA to respond to these data requests is ongoing. Accordingly, GTE and BA promptly must provide additional information or documents when further information or documents responsive to these data requests are discovered.

2. In response to each data request, GTE and BA shall restate the entire data request on an individual page preceding the information or document(s) responsive to that request.

3. If any document or information is withheld on the ground of privilege, GTE and BA shall produce a log setting forth the date of the document, the author(s), the recipient(s), a summary of the document generally describing its contents, and the basis for the privilege asserted.

4. Identify each person who provided information used in answering each data request. Such information shall include the full name, present business address, occupation title, employer and organization for each such person, and indicate the information provided by each.

5. If you contend that any response to any data request is proprietary, Sprint agrees to sign the same *Confidentiality Agreement* that was executed by

Sprint and counsel for the Joint Applicants in Case No. 98-519, and dated December 30, 1998. Please provide a copy of the *Confidentiality Agreement* to Sprint within three (3) business days of receipt of these data requests.

6. These discovery requests are to be answered with reference to all information in your possession, custody or control or reasonably available to you. These discovery requests are intended to include requests for information that is physically within the Joint Applicants' possession, custody or control as well as in the possession, custody or control of the Joint Applicants' agents, attorneys, or other third parties from which such documents may be obtained.

DATA REQUESTS AND INTERROGATORIES

1. Please produce all responses by BA and GTE to the discovery requests of other parties in this docket and all documents produced by BA and GTE in response to the discovery requests of other parties in this docket.

2. Please refer to the Joint Applicants' response to Sprint's Data Request No. 4, in Case No. 98-519, filed December 16, 1998. If approved plans for the consolidation of such functions following the merger now exist, please produce all documents relating to the strategy and/or plans of BA to consolidate the operations (including billing,

administrative, customer service, marketing, legal, accounting, and Operational Support Systems) of BA and it subsidiaries with the same or similar operations of GTE and its subsidiaries.

3. Please refer to the Joint Applicants' response to Sprint's Data Request No. 17, in Case No. 98-519, filed December 16, 1998. If such a determination has now been made, please identify any new products and services anticipated to be introduced by the merged entity in GTE territory between January 1, 2000 and January 1, 2003.

4. Please refer to the Joint Applicants' response to Sprint's Data Request No. 23, in Case No. 98-519, filed December 16, 1998. Please identify and produce all documents relating to the locations, budgets and organizational structure of the proposed merged entity's combined local service centers and related OSS systems, if any.

5. Please identify the types of switches used by GTE and BA, and explain whether GTE and BA use the same switches, and if not, discuss GTE's current plans for managing the greater complexity involved in integrating different types of switches.

6. Please refer to the "Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control", Case No. 99-296 (filed July 9, 1999) (hereinafter "Joint Application"), at 14. Please also refer to the following excerpt from the Commission's Order, Case No. 98-519, at 3: "in any

refiling, [Joint Applicants] must identify specifically those advanced services which will be made available in Kentucky as a result of the merger . . ." (emphasis added). Please explain how the Joint Applicants' use of the term "advanced CLASS services" on p. 14 of the Joint Application, which apparently includes "advanced services such as Caller ID, Call Blocking, Selective Call Forwarding, Anonymous Call Rejection and Call Trace", differs from the following definition of "advanced services" used by the Federal Communications Commission ("FCC") in its First Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 98-147[1] (released March 31, 1999), at 2, fn. 2:

> For purposes of this order, we use the term "advanced services" to mean high speed, switched, broadband, wireline telecommunications capability that enables users to originate and receive high-quality voice, data, graphics, or video telecommunications using any technology. The term "broadband" is generally used to convey sufficient capacity – or "Bandwidth" – to transport large amounts of information. . . . Today's broadband services include services based on digital subscriber line technology (commonly referred to as xDSL), including ADSL (asymmetric digital subscriber line), HDSL (high-speed digital subscriber line), UDSL (universal digital subscriber line) VDSL (very-high speed digital subscriber line), and RADSL (rate-adaptive digital subscriber line), and services based on packet-switched technology.

7. Please provide a current organizational chart for GTE Corporation, its subsidiaries and affiliates.

8. Please refer to the following excerpt from the Joint Applicants' letter to the FCC in Docket No. 98-184, dated April 14, 1999: "Following the filing of our New York 271 application with you, we will make a further submission that addresses the long distance issues and supports our underlying merger application. We request that you

[1] *In the Matters of Deployment of Wireline Services Offering Advanced Telecommunications Capability.*

await that submission before you act on our merger application." In light of the aforementioned letter, what is the current status of the GTE/Bell Atlantic merger proceedings at the FCC? Please explain in detail.

9. Please describe GTE's current plans, if any, for implementing xDSL services in its Kentucky service territories.

10. Please describe GTE's current policy with regard to the availability of and pricing for combined unbundled network elements ("UNEs") in its Kentucky service territories.

11. Please explain the Joint Applicants' current position regarding the proper interpretation of the "necessary" and "impair" standards contained in 47 U.S.C. 251(d)(2) that are currently before the FCC in CC Docket No. 96-98, on remand as a result of the Supreme Court's decision in AT&T Corp. et al. V. Iowa Utilities Bd., 119 S.Ct. 721 (1999).

12. Please refer to the Direct Testimony of Michael W. Reed filed with the Joint Application in this matter on July 9, 1999, at 9. How did GTE and/or GTE South derive the $222 million figure as the appropriate minimum level of commitment with regards to infrastructure capital investment in Kentucky for the three years following the merger?

13. Please refer to the Direct Testimony of Michael W. Reed, at 9. Please provide examples of "a change in economic conditions outside of the merged company's control" which might affect GTE South's ability to meet the commitment of at least $222 million regarding infrastructure capital investment in Kentucky for the three years following the merger.

14. Please refer to the Direct Testimony of Michael W. Reed, at 9. Please describe the procedure(s) or manner in which the Joint Applicants and/or GTE South will notify the Commission that a "change in economic conditions outside of the merged company's control" has occurred which will affect GTE South's ability to meet the commitment of at least $222 million regarding infrastructure capital investment in Kentucky for the three years following the merger.

15. Please refer to the Direct Testimony of Michael W. Reed, at 9. Please describe in detail the Joint Applicants' and/or GTE South's implementation plan regarding the commitment of at least $222 million in infrastructure capital investment in Kentucky for the three years following the merger. Please describe in detail what types of infrastructure will be targeted for upgrade/replacement, and the geographical areas in which these infrastructure upgrades/replacements will take place.

16. Please refer to the Direct Testimony of Michael W. Reed, at 9. Will the commitment of at least $222 million referenced in Mr. Reed's testimony apply for each of the

years following the merger (for a total minimum commitment of $666 million), or is the $222 million figure an aggregate amount for the three years?

17. Please provide the estimated amount of GTE South's infrastructure capital investment for its Kentucky operations for 1999.

18. Please provide the actual amount of GTE South's infrastructure capital investment for its Kentucky operations for the years 1997 and 1998.

19. Based upon current plans, will the merged entity use Unbundled Network Elements in order to facilitate the implementation of its competitive out-of-franchise strategy?

20. Please refer to the Direct Testimony of John Peterson filed in connection with this matter on July 9, 1999, at 5. Please identify how many of the competitive local exchange carriers ("CLECs") with operations in Kentucky are currently using GTE's Wholesale Internet Service Engine ("WISE") for service ordering and access to operations support systems ("OSS"). In answering this request, please state whether it is necessary for GTE to issue CLECs a password prior to the CLECs' use of WISE for service ordering and access to OSS, and please identify how many CLECs have obtained such a password, and how many are currently accessing WISE through the use of such a password.

21. Please refer to the Direct Testimony of Paul R. Shuell filed in connection with this matter on July 9, 1999, Schedules A.1 through A.4. Please identify the other jurisdictions, if any, in which GTE has filed the same or similar estimates contained in Schedules A.1 through A.4, and provide copies of those schedules and estimates.

Respectfully submitted this 23rd day of July, 1999.

Sprint Communications Company L.P.

William R. Atkinson

William R. Atkinson
Sprint
3100 Cumberland Circle – GAATLNO802
Atlanta, Georgia 30339
(404) 649-6221

-and-

John N. Hughes
124 W. Todd Street
Frankfort, Kentucky 40601
(502) 227-7270

Attorneys for Sprint Communications Company L.P.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing Sprint's First Data Requests and Interrogatories to GTE Corporation and Bell Atlantic Corporation in Docket No. 99-296 via United States first class mail, postage pre-paid and properly addressed to the following:

Mr. Larry D. Callison
GTE Service Corporation
150 Rojay Drive
Lexington, KY 40503

Jeffrey J. Yost
Jackson & Kelly
175 East Main Street, Suite 500
P.O. Box 2150
Lexington, KY 40595-2150

John Rogovin
Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteenth Street, NW
Washington, DC 20004

John Walker
Bell Atlantic Corporation
1320 N. Courthouse Road
8th Floor
Arlington, VA 22201

William D. Smith
Bell Atlantic Corporation
1095 Avenue of the Americas
37th Floor
New York, NY 10036

Robert W. Woltz, Jr.
Bell Atlantic Corporation
600 Main Street
24th Floor
Richmond, VA 23219

Michael D. Lowe
Bell Atlantic
1320 N. Court House Rd.
8th Floor
Arlington, VA 22201

Ann Louise Cheuvront
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, KY 40601

Joe W. Foster
GTE Service Corporation
NC999015
4100 N. Roxboro Road
Durham, NC 27704

This 23rd of July, 1999.

Danielle Etzbach

Danielle Etzbach
Sprint Communications Company L.P.

RECEIVED

JUL 22 1999

PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	) CASE NO. 99-296

* * * * * * * * * * * * * * * *

MOTION TO INTERVENE

* * * * * * * * * * * * * * * *

Comes now the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, pursuant to KRS 367.150(8) and moves to intervene in the above-styled proceeding. The Attorney General requests that he be permitted to intervene as a party to the fullest extent permitted by law in order to execute his statutory duties pursuant to KRS 367.150(8).

Respectfully submitted,

A.B. CHANDLER III
ATTORNEY GENERAL

ANN LOUISE CHEUVRONT
ASSISTANT ATTORNEY GENERAL
OFFICE OF RATE INTERVENTION
1024 CAPITAL CENTER DRIVE
FRANKFORT, KENTUCKY 40601
502-696-5300
502-573-8315 (FAX)

CERTIFICATION

This certifies that a true copy of the foregoing Motion was served upon the parties by mailing a copy of same, first class mail, postage prepaid, to

MR LARRY D CALLISON
GTE SERVICE CORPORATION
150 ROJAY DRIVE
LEXINGTON KY 40503

JEFFREY J YOST
JACKSON & KELLY
175 EAST MAIN STREET SUITE 500
LEXINGTON KY 40595-2150

JOHN ROGOVIN
JEFF CARLISLE
O"MELVENY & MYERS LLP
555 THIRTEENTH STREET NW
WASHINGTON DC 20004

JOHN WALKER
BELL ATLANTIC CORPORATION
1710 H STREET NW
11TH FLOOR
WASHINGTON DC 20006

WILLIAM D SMITH
BELL ATLANTIC CORPORATION
1095 AVENUE OF THE AMERICANS
37TH FLOOR
NEW YORK NY 10036

ROBERT W WOLTZ JR
BELL ATLANTIC CORPORATION
600 EAST MAIN STREET
24TH FLOOR
RICHMOND VIRGINIA 23219

this 22nd, day of July, 1999.

Ann Louise Cheuvront

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 22, 1999

To: All parties of record

RE: Case No. 99-296

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie J. Bell
Stephanie Bell
Secretary of the Commission

SB/sa
Enclosure

Larry D. Callison
State Manager-Regulatory Affairs
GTE South, Inc.
150 Rojay Drive
Lexington, KY 40503

Hon. William R. Atkinson
Hon. Carolyn Tatum Roddy
Sprint
3100 Cumberland Circle
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GTE Service Corporation
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124 W. Todd Street
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555 Thirteen Street, N.W.
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John Walker
Bell Atlantic Corporation
1320 North Courthouse Road
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Honorable Jeffrey J. Yost
Attorney at Law
Jackson & Kelly
175 East Main Street, Suite 500
P. O. Box 2150
Lexington, KY 40595 2150

Michael D. Lowe
Bell Atlantic
1320 N. Court House Road
8th Floor
Arlington, VA 22201

Hon. Ann Louise Cheuvront
Assistant Attorney General
Office of Rate Intervention
1024 Captial Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF BELL ATLANTIC	)	
CORPORATION AND GTE CORPORATION FOR	)	CASE NO.
ORDER AUTHORIZING TRANSFER OF UTILITY	)	99-296
CONTROL	)	

ORDER

This matter arising upon the motion of Sprint Communications Company L.P. ("Sprint"), filed July 15, 1999, for full intervention, and it appearing to the Commission that Sprint has a special interest which is not otherwise adequately represented, and that such intervention is likely to present issues and develop facts that will assist the Commission in fully considering the matter without unduly complicating or disrupting the proceedings, and this Commission being otherwise sufficiently advised,

IT IS HEREBY ORDERED that:

1. The motion of Sprint to intervene is granted.

2. Sprint shall be entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order.

3. Should Sprint file documents of any kind with the Commission in the course of these proceedings, it shall also serve a copy of said documents on all other parties of record.

Done at Frankfort, Kentucky, this 22nd day of July, 1999.

By the Commission

ATTEST:

Helen C. Helton

Executive Director

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602
www.psc.state.ky.us
(502) 564-3940

July 16, 1999

Joe W. Foster
GTE Corporation
NC999015
4100 N. Roxboro Road
Durham, NC 27704

RE: Petition for Confidential Protection
Case No. 99-296

Dear Mr. Foster,

The Commission has received the joint petition GTE Corporation and Bell Atlantic Corporation, filed July 9,1999, to protect as confidential workpapers filed in support of the their application to merge. A review of the information has determined that it is entitled to the protection requested on the grounds relied upon in the petition and it shall be withheld from public inspection.

If the information becomes publicly available or no longer warrants confidential treatment, you are required by 807 KAR 5:001, Section 7(9)(a) to inform the Commission so that the information may be placed in the public record.

Sincerely,
Helen C. Helton

Helen C. Helton
Executive Director

cc: All parties of record.

Sprint

William R. Atkinson
Attorney, State Regulatory

3100 Cumberland Circle
Atlanta, GA 30339
Voice 404 649 6221
Fax 404 649 5174
bill.atkinson@mail.sprint.com

July 14, 1999

VIA FEDERAL EXPRESS

Helen C. Helton, Executive Director
Kentucky Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

In Re: Case No. 99-296 – Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control

Dear Ms. Helton:

Enclosed please find for filing an original and ten (10) copies of the Petition for Leave to Intervene of Sprint Communications Company L.P. in the above referenced proceeding.

An extra copy is also included which I ask that you please date stamp and return in the enclosed reply envelope for my file.

Thank you for your assistance in this matter. Should you have any questions, please feel free to contact me.

Sincerely,

William R. Atkinson

William R. Atkinson

WRA/de
Enclosures
cc: Parties of Record

RECEIVED

JUL 1 5 1999

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Joint Application of Bell Atlantic	)	
Corporation and GTE Corporation	)	CASE NO. 99-296
For Order Authorizing Transfer of	)	
Utility Control	)	

PETITION FOR LEAVE TO INTERVENE OF SPRINT COMMUNICATIONS COMPANY L.P.

COMES NOW Sprint Communications Company L.P. ("Sprint"), pursuant to 807 KAR 5:001, Section 3(8), and hereby petitions the Kentucky Public Service Commission ("Commission") for leave to intervene in the above-styled proceeding. In support thereof, Sprint respectfully shows as follows:

1.

On April 14, 1999, the Commission issued an Order in Case No. 98-519, denying, without prejudice, GTE Corporation's ("GTE") and Bell Atlantic Corporation's ("Bell Atlantic" or "BA") (hereinafter "Joint Applicants") initial application for an Order authorizing transfer of utility control. In the Order denying GTE's and BA's initial application, the Commission specified that the parties could refile an application at their discretion, and that such a refiled application must include six categories of information specified in detail in the Order.

2.

On July 9, 1999, the Joint Applicants submitted a refiled Joint Application for Transfer of Utility Control, including supporting exhibits and prefiled testimony, in which GTE and Bell Atlantic allege to address the six issues identified in the Commission's April 14, 1999, Order.

3.

As the Joint Applicants acknowledge in their refiled Application (at 1), the Commission has jurisdiction over the transaction in question pursuant to Kentucky Revised Statutes ("KRS") 278.020(4) and (5). Prior Commission approval is required before GTE transfers and Bell Atlantic acquires ownership and control of GTE South Incorporated, which is certificated and operates as an incumbent local exchange carrier ("ILEC") in Kentucky. Further, KRS 278.020(5) specifically states that "[t]he commission shall approve any such proposed acquisition when it finds that the same is to be made in accordance with law, for a proper purpose <u>and is consistent with the public interest</u>." (emphasis added).

4.

Sprint is an interexchange carrier which holds a certificate of public convenience and necessity and is duly authorized to provide telecommunications services in the Commonwealth of Kentucky. Sprint is also a certificated competitive local exchange carrier ("CLEC") in numerous jurisdictions, and intends to offer competitive local exchange services in Kentucky once authorized by the Commission to do so. Sprint sponsored extensive testimony, issued and responded to discovery, and otherwise fully participated in the proceedings held in connection with the Joint Applicants' initial application.

5.

Sprint respectfully submits that the refiled Joint Application that is the subject of this proceeding may have a direct and material effect upon the legal rights, duties, privileges, immunities or other legal interests of Sprint. As the Commission recognized in its Order, dated November 5, 1998, in Case No. 98-519 granting Sprint's Petition for Intervention in connection with the Joint Applicants' initial merger application, Sprint has a substantial and special interest in these proceedings which is not otherwise adequately represented, and Sprint's intervention and subsequent participation is likely to present issues and develop facts that will assist the Commission in fully considering this matter without unduly complicating or disrupting the proceedings. Specifically, Sprint intends to present evidence in this docket regarding whether Commission approval of the merger transaction described in the refiled Joint Application is consistent with the public interest.

6.

Sprint requests that it be granted leave for full intervention with the right to fully participate in this proceeding as a party and that the undersigned counsel for Sprint be served with filed testimony, exhibits, pleadings, correspondence and all other documents submitted by parties and be certified as a party for the purposes of receiving service of any petition for rehearing or judicial review.

WHEREFORE, in recognition of the foregoing, Sprint respectfully requests that the Commission allow Sprint to intervene fully as a party of record in this proceeding.

Respectfully submitted this 14th day of July, 1999.

Sprint Communications Company L.P.

William R. Atkinson

William R. Atkinson
Sprint
3100 Cumberland Circle – GAATLNO802
Atlanta, Georgia 30339
(404) 649-6221

-and-

John N. Hughes
124 W. Todd Street
Frankfort, Kentucky 40601
(502) 227-7270

Attorneys for Sprint Communications Company L.P.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and exact copy of the within and foregoing Petition for Leave to Intervene of Sprint Communications Company L.P. in Docket No. 99-296 via United States first class mail, postage pre-paid and properly addressed to the following:

Mr. Larry D. Callison
GTE Service Corporation
150 Rojay Drive
Lexington, KY 40503

Jeffrey J. Yost
Jackson & Kelly
175 East Main Street, Suite 500
P.O. Box 2150
Lexington, KY 40595-2150

John Rogovin
Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteenth Street, NW
Washington, DC 20004

John Walker
Bell Atlantic Corporation
1320 N. Courthouse Road
8th Floor
Arlington, VA 22201

William D. Smith
Bell Atlantic Corporation
1095 Avenue of the Americas
37th Floor
New York, NY 10036

Robert W. Woltz, Jr.
Bell Atlantic Corporation
600 Main Street
24th Floor
Richmond, VA 23219

Michael D. Lowe
Bell Atlantic
1320 N. Court House Rd.
8th Floor
Arlington, VA 22201

Ann Louise Cheuvront
Assistant Attorney General
Office of Rate Intervention
1024 Capitol Center Drive
Frankfort, KY 40601

Joe W. Foster
GTE Service Corporation
NC999015
4100 N. Roxboro Road
Durham, NC 27704

This 14th of July, 1999.

Danielle Etzbach
Danielle Etzbach
Sprint Communications Company L.P.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 15, 1999

To: All parties of record

RE: Case No. 99-296

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB /rlm
Enclosure

Larry D. Callison
State Manager-Regulatory Affairs
GTE South, Inc.
150 Rojay Drive
Lexington, KY 40503

Hon. William R. Atkinson
Hon. Carolyn Tatum Roddy
Sprint
3100 Cumberland Circle
Atlanta, GA 30339

Joe W. Foster
GTE Service Corporation
NC999015
4100 North Roxboro Road
Durham, NC 27704

Hon. John N. Hughes
124 W. Todd Street
Frankfort, KY 40601

Honorable John Rogovin
& Honorable Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteen Street, N.W.
Washington, DC 20004

John Walker
Bell Atlantic Corporation
1320 North Courthouse Road
8th Floor
Arlington, VA 22201

Honorable Jeffrey J. Yost
Attorney at Law
Jackson & Kelly
175 East Main Street, Suite 500
P. O. Box 2150
Lexington, KY 40595 2150

Michael D. Lowe
Bell Atlantic
1320 N. Court House Road
8th Floor
Arlington, VA 22201

Hon. Ann Louise Cheuvront
Assistant Attorney General
Office of Rate Intervention
1024 Captial Center Drive
Frankfort, KY 40601

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	) CASE NO. 99-296

ORDER

A joint application of Bell Atlantic Corporation and GTE Corporation for an Order authorizing the transfer of utility control was filed on July 9, 1999. It is necessary to establish a procedural schedule with strict deadlines. The Commission, being otherwise sufficiently advised, HEREBY ORDERS that:

1. The procedural schedule set forth in the Appendix to this Order shall be followed.

2. All requests for information and responses thereto shall be appropriately indexed. All responses shall include the name of the witness who will be responsible for responding to the questions related to the information provided, with copies to all parties of record and 10 copies to the Commission.

3. Because of statutory time constraints, motions and requests for extensions of time with respect to the schedule herein will be granted only upon showing exceptional circumstances.

4. Neither opening statements nor witnesses' summaries of prefiled direct testimony will be permitted.

Done at Frankfort, Kentucky, this 15th day of July, 1999.

By the Commission

ATTEST:

Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 99-296 DATED July 15, 1999.

All requests for information to the Joint Applicants shall be due no later than 7/26/99

The Joint Applicants shall mail or deliver responses to the requests for information no later than 8/9/99

Intervenor testimony, if any, shall be filed in verified prepared form no later than 8/16/99

All written rebuttal testimony shall be filed and due no later than 8/20/99

Public hearing is to begin at 9:00 a.m., Eastern Daylight Time, in Hearing Room 1 of the Commission's offices at 730 Schenkel Lane, Frankfort, Kentucky for the purposes of cross-examination of witnesses of the Joint Applicants and witnesses of the Intervenors 8/24/99

Briefs, if any, shall be due no later than 8/30/99

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 14, 1999

To: All parties of record

RE: Case No. 99-296
GTE SOUTH, INC.

The Commission staff has reviewed your application in the above case and finds that it meets the minimum filing requirements. Enclosed please find a stamped filed copy of the first page of your filing. This case has been docketed and will be processed as expeditiously as possible.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/hv
Enclosure

Larry D. Callison
State Manager-Regulatory Affairs
GTE South, Inc.
150 Rojay Drive
Lexington, KY. 40503

Joe W. Foster
GTE Service Corporation
NC999015
4100 North Roxboro Road
Durham, NC. 27704

Honorable John Rogovin
& Honorable Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteen Street, N.W.
Washington, DC. 20004

John Walker
Bell Atlantic Corporation
1320 North Courthouse Road
8th Floor
Arlington, VA. 22201

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
730 SCHENKEL LANE
POST OFFICE BOX 615
FRANKFORT, KY. 40602
(502) 564-3940

July 12, 1999

To: All parties of record

RE: Case No. 99-296
GTE SOUTH, INC.
(Transfer/Sale/Purchase/Merger) OF BELL ATLANTIC CORPORATION

This letter is to acknowledge receipt of initial application in the above case. The application was date-stamped received July 9, 1999 and has been assigned Case No. 99-296. In all future correspondence or filings in connection with this case, please reference the above case number.

If you need further assistance, please contact my staff at 502/564-3940.

Sincerely,

Stephanie Bell

Stephanie Bell
Secretary of the Commission

SB/jc

Larry D. Callison
State Manager-Regulatory Affairs
GTE South, Inc.
150 Rojay Drive
Lexington, KY. 40503

Joe W. Foster
GTE Service Corporation
NC999015
4100 North Roxboro Road
Durham, NC. 27704

Honorable John Rogovin
& Honorable Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteen Street, N.W.
Washington, DC. 20004

John Walker
Bell Atlantic Corporation
1320 North Courthouse Road
8th Floor
Arlington, VA. 22201

Larry D. Callison
State Manager
Regulatory Affairs & Tariffs

GTE

GTE Service Corporation

KY10H072
150 Rojay Drive
Lexington, KY 40503
606 245-1389
Fax: 606 245-1721

FILED
JUL - 9 1999
PUBLIC SERVICE COMMISSION

RECEIVED
JUL - 9 1999
PUBLIC SERVICE COMMISSION

July 9, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Post Office Box 615
Frankfort, Kentucky 40602

CASE 99-296

Re: Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control

Dear Ms. Helton:

Enclosed for filing with the Kentucky Public Service Commission ("Commission") are an original and ten copies of the Joint Application of Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE") for Order Authorizing Transfer of Utility Control, a transaction which will result in GTE becoming a wholly-owned subsidiary of Bell Atlantic.

Also enclosed for filing are an original and ten copies of a Joint Petition for Confidentiality, in which GTE and Bell Atlantic seek proprietary and confidential treatment by the Commission of certain workpapers being filed today in support of the Joint Application. An original copy with proprietary and confidential data highlighted in yellow and one redacted copy are herewith provided.

I would be most appreciative if you would bring this filing to the attention of the Commission, and should you have any questions about the enclosed material, please do not hesitate to contact me at your convenience. Thank you for your consideration in this matter.

Yours truly,

Larry D. Callison

Larry D. Callison

Enclosures

c: Hon. Ann Louise Cheuvront - Assistant Attorney General
Hon. William R. Atkinson - Sprint

CASE 99-296

PARENT COMPANIES MERGER APPLICATION

Bell Atlantic Corporation
GTE Corporation

STATE OF KENTUCKY

Application, Testimony and Exhibits
Kentucky Public Service Commission

Larry D. Callison
State Manager
Regulatory Affairs & Tariffs

GTE

GTE Service Corporation

KY10H072
150 Rojay Drive
Lexington, KY 40503
606 245-1389
Fax: 606 245-1721

FILED
JUL - 9 1999
PUBLIC SERVICE COMMISSION

RECEIVED
JUL - 9 1999
PUBLIC SERVICE COMMISSION

July 9, 1999

Ms. Helen C. Helton
Executive Director
Public Service Commission
730 Schenkel Lane
Post Office Box 615
Frankfort, Kentucky 40602

CASE 99-296

Re: Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control

Dear Ms. Helton:

Enclosed for filing with the Kentucky Public Service Commission ("Commission") are an original and ten copies of the Joint Application of Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE") for Order Authorizing Transfer of Utility Control, a transaction which will result in GTE becoming a wholly-owned subsidiary of Bell Atlantic.

Also enclosed for filing are an original and ten copies of a Joint Petition for Confidentiality, in which GTE and Bell Atlantic seek proprietary and confidential treatment by the Commission of certain workpapers being filed today in support of the Joint Application. An original copy with proprietary and confidential data highlighted in yellow and one redacted copy are herewith provided.

I would be most appreciative if you would bring this filing to the attention of the Commission, and should you have any questions about the enclosed material, please do not hesitate to contact me at your convenience. Thank you for your consideration in this matter.

Yours truly,

Larry D. Callison

Larry D. Callison

Enclosures

c: Hon. Ann Louise Cheuvront - Assistant Attorney General
Hon. William R. Atkinson - Sprint

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
Joint Application of Bell Atlantic	)	
Corporation and GTE Corporation	)	CASE NO. 99-296
For Order Authorizing Transfer of	)	
Utility Control	)	

JOINT PETITION FOR CONFIDENTIALITY

Comes Now GTE Corporation, referred to hereinafter as "GTE" or "Company", and Bell Atlantic Corporation, referred to hereinafter as "Bell Atlantic", or sometimes collectively as "Joint Petitioners", by and through counsel, pursuant to KRS 61.870, et seq., and Kentucky Public Service Commission ("Commission") Rule 807 KAR 5:001. Section 7, et seq., and in support of their Joint Petition herein state as follows:

1. In a contemporaneous filing on July 9, 1999, Joint Petitioners filed a Joint Application with the Commission seeking approval of a transaction that will result in GTE becoming a wholly-owned subsidiary of Bell Atlantic. In conjunction with their Joint Application, the parties have filed various exhibits, schedules, pre-filed direct testimony and certain workpapers relied upon by GTE witnesses Messrs. Stephen Shore and Paul Shuell in the preparation of their respective pre-filed direct testimony.[1] Joint

[1] The workpapers are referenced in the Joint Application in Section IV, C.(1)(f). Furthermore, Company witness William A. Griswold also refers to the workpapers in his pre-filed direct testimony.

Petitioners consider major portions of these workpapers to be proprietary and confidential and should be afforded such treatment by the Commission.[2]

2. KRS 61.870, et seq., requires that public agencies within the Commonwealth make available for inspection all public records. Certain exceptions to that general requirement are contained in KRS 61.878. KRS 61.878 (1)(c), et seq., provides an exemption for certain commercial information. In order to qualify for such an exemption under this section of the Act, a party must demonstrate that disclosure of such commercial information would permit an unfair commercial advantage to its competitors unless the information is afforded confidential protection. The procedure for requesting confidential treatment from the Commission is outlined at 807 KAR 5:001, Section 7, et seq.

3. KRS 61.870, et seq., requires that public agencies within the Commonwealth make available for inspection all public records. Certain exceptions to that general requirement are contained in KRS 61.878. KRS 61.878 (1)(c), et seq., provides an exemption for certain commercial information. In order to qualify for such an exemption under this section of the Act, a party must demonstrate that disclosure of such commercial information would permit an unfair commercial advantage to its competitors unless the information is afforded confidential protection. The procedure for requesting confidential treatment from the Commission is outlined at 807 KAR 5:001, Section 7, et seq.

[2] Pursuant to Commission Rule 807 KAR 5:001, Section 7, et seq., the confidential information is highlighted in yellow for the Commission's review. Also, due to the voluminous nature of the material herein the Joint Petitioners are only filing one redacted copy of the confidential and proprietary material and, accordingly, request that the Commission grant a waiver of its rule which generally requires the filing of ten redacted copies of the material in question.

4. The detailed information contained in the Joint Petitioner's workpapers, a copy of which are included with this Joint Petition, include data that contains proprietary commercial information and, accordingly, GTE and Bell Atlantic request the Commission to afford confidentiality to this information pursuant to the exemption provided in KRS 61.878 (1)(c). The commercial information contained in these workpapers include, but are not limited to, specific cost studies, expense studies, depreciation studies, forecasts, and related matters (performed by both internal and external sources) which are highly confidential. Simply stated, these workpapers contain data, which if disclosed, would cause irreparable harm to the Joint Petitioners.[3] A competitor could use the information contained in these studies to obtain market information about the Joint Petitioners, particularly with regard to their cost structure and positions, which the competitor would be unable to obtain otherwise. Armed with this information, a competitor could develop entry and/or marketing strategies that would likely ensure its success in competing with the Joint Petitioners. Conversely, neither GTE nor Bell Atlantic is able to receive such information about their competitors and their customers. Further in a competitive market, any information gained about a competitor can be used to that competitor's detriment. Such an unfair competitive advantage skews the marketplace and prevents the development of true competition to the ultimate detriment of the consumer.

5. Disclosure of confidential information of this nature will be detrimental to the Joint Petitioners because it contains data that is not otherwise available to their competitors. Once supplied with this information, a competitor could use it to target their

[3] In addition, some of the material for which confidential treatment is sought contains information regarding the number(s) of potentially affected employees (albeit not by specific geographic location).

marketing efforts to the detriment of the Joint Petitioners. The information sought to be protected herein is not known outside GTE or Bell Atlantic, nor is it provided to the public, its internal use is restricted to only those employees who have a legitimate business reason for reviewing such, and the Joint Petitioners attempt to control the dissemination of this material through all reasonable means. Indeed, by granting the Joint Petition the public interest will be served because competition will be enhanced.

WHEREFORE, GTE Corporation and Bell Atlantic Corporation respectfully request that the honorable Kentucky Public Service Commission issue an order herein granting confidential treatment to the Joint Petitioner's workpapers, cost and expense studies and other related material. Additionally, the parties would respectfully ask that the Commission waive its rule and allow the Joint Petitioners to file only one copy of the redacted information.

Respectfully submitted this the 9th day of July, 1999.

GTE CORPORATION
BELL ATLANTIC CORPORATION

BY: Joe W. Foster

Joe W. Foster
GTE Service Corporation
NC999015
4100 N. Roxboro Road
Durham, North Carolina 27704
(919) 317-7656

Their Attorney

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

Joint Application of Bell Atlantic Corporation And GTE Corporation for Order Authorizing Transfer of Utility Control	))))	Case No. 99-296

JOINT APPLICATION

GTE Corporation ("GTE"), the parent company of GTE South Incorporated ("GTE South"), and Bell Atlantic Corporation ("Bell Atlantic") (the "Joint Applicants") hereby request that the Kentucky Public Service Commission ("Commission") approve a transaction that will result in GTE becoming a wholly-owned subsidiary of Bell Atlantic. This Joint Application is filed with the Commission pursuant to Kentucky Revised Statutes § 278.020 (4) and (5) and this Commission's Order in Case No. 98-519.[1]

I. INTRODUCTION

Section 278.020(4) provides that the Commission shall approve the acquisition of a utility "if the person acquiring the utility has the financial, technical, and managerial abilities to provide reasonable service." Section 278.020(5) provides that the Commission shall approve the acquisition of a utility if the acquisition "is to be made in accordance with law, for a proper purpose and is consistent with the public interest." As

[1] The Commission considered this merger previously and dismissed the petition, without prejudice to refile. The Commission directed the Joint Applicants to provide information concerning six specific issues in any refiled petition. Order, *Joint Application of Bell Atlantic Corp. & GTE Corp.*, Case No. 98-519 (Apr. 14, 1999) (the "April 14 Order"). This Joint Application specifically addresses each of the six issues identified in the April 14 Order.

the Joint Applicants explain below, and as shown in the testimony and exhibits attached hereto, the merger meets these statutory requirements.

To ensure that the merger meets these statutory requirements, the April 14 Order requested specific information about deployment of advanced services, quality of service, consolidation of GTE South, interLATA services, competition and the allocation of cost synergies to Kentucky operations. The Joint Applicants respond herein as follows.

First, the Joint Applicants estimate that net cost savings resulting from the merger allocable to GTE South's intrastate regulated operations will reach $7.2 million per year after three years. Accordingly, the merged company will be in a better position to undertake the expense of extending advanced CLASS services to 100% of GTE South's exchanges in Kentucky and will commit to do so within 48 months of the consummation of the merger, if the merger is approved. This commitment provides a tangible service improvement and simultaneously addresses the Commission's concerns regarding the deployment of advanced services. *See* April 14 Order, ¶¶ 1, 6.

Second, the Joint Applicants commit that the merged company will invest a minimum of $222 million over the three years following the merger to ensure that the merger has no negative impact on quality of service. Additionally, the Joint Applicants will expand local calling plans to the remaining GTE South exchanges that do not currently benefit from such plans pursuant to tariff filings made in 2000 or 2001. *See id.*, ¶ 2.

Third, the merger does not entail consolidation of GTE South with any other operating company. Bell Atlantic has no local telephone operating company in Kentucky -- it only has two subsidiaries that provide resold long distance service to a very small number of customers. Thus, there will be no merger of operating companies in Kentucky following the merger of GTE and Bell Atlantic, as was contemplated by the April 14 Order. *See id.*, ¶ 3.

Fourth, the merger will have no impact on any interLATA interexchange services offered by GTE or Bell Atlantic affiliates in Kentucky. Under federal law, both GTE and Bell Atlantic are permitted to originate interLATA interexchange services in Kentucky today and the merged company likewise will be permitted to do so after the merger. Nor will the merger in any way alter GTE South's current interLATA local calling routes provided to Kentucky customers. *See id.*, ¶ 4. Additionally, the merger will have no adverse impact on cellular customers of GTE and Bell Atlantic affiliates in Kentucky. As is shown by Exhibits 10, 11 and 12 attached hereto, the United States Department of Justice ("DOJ") cleared the merger on May 7, 1999, subject only to the condition that certain overlapping wireless properties be divested. None of these properties are in Kentucky and, in any case, Bell Atlantic does not have any wireless properties in Kentucky.

Fifth, the merger will not increase GTE South's market power in Kentucky, nor will it result in any anticompetitive effect that would work to the detriment of GTE South's competitors or Kentucky consumers. After the merger, GTE South will still be subject to the pro-competitive regulations of this Commission, the Telecommunications

Act of 1996 (the "1996 Act") and the provisions of its interconnection agreements with competitive local exchange carriers ("CLECs"). Significantly, the DOJ cleared the GTE/Bell Atlantic merger three weeks after the April 14 Order and, aside from the wireless issue noted above, chose *not* to raise any objections to the merger based on antitrust or market power issues. *See id.*, ¶ 5.

Sixth, the Joint Applicants have provided the Commission with details regarding the $2 billion in cost synergies and $500 million in capital synergies that they estimate will result from the merger, as well as an allocation of cost synergies to intrastate regulated operations in Kentucky. *See id.*, ¶ 6. As is noted above, cost synergies allocable to Kentucky intrastate regulated operations will place GTE South in a better position to deploy advanced services in Kentucky, such as the extension of CLASS services mentioned above.

In addition to these specific responses to the April 14 Order, the Joint Applicants also show herein how the merger is in the public interest because it will have no detrimental impact on Kentucky consumers, and will result in significant benefits to them.

The merger will have no detrimental impact on Kentucky or Kentucky consumers because it is a parent company merger, accomplished through a stock transfer, that does not contemplate changes to GTE South's operations or consolidation of GTE South into any other GTE or Bell Atlantic affiliate. Thus, the merger will not result in any change to the rates, terms or conditions of GTE South's services, the quality of those services, or this Commission's regulatory authority over GTE South. Moreover, the merger will have no material impact on employment. The unions representing GTE South's hourly workers support the merger and have made strong arguments in favor of its approval.

The merger will also result in additional tangible benefits to Kentucky consumers beyond those listed above. The merged company will enter the Louisville market and compete with BellSouth within 18 months of the consummation of the merger. Furthermore, the merged company will implement the best practices of each company at the corporate level, resulting in a more efficient merged company that will provide better service to all of its customers. Additionally, the merger will allow GTE and Bell Atlantic to compete meaningfully in the long distance and data services markets. Thus, the merger will provide Kentucky consumers an additional choice for these services aside from the "Big Three" providers (AT&T, MCI WorldCom and Sprint), as well as for packages of local, long distance, wireless and data services.

Given that the merger will result in no detriment to the public interest, will actually advance the public interest, and the Joint Applicants have made commitments and provided information responsive to the April 14 Order, there can be no doubt that the merger is consistent with the public interest. This is a forward-looking merger that will allow GTE South's Kentucky customers the opportunity to be served by a world-class telecommunications company capable of achieving substantial cost savings while continuing to provide high quality service. Accordingly, the Commission should approve the merger within the 60-day time period provided by K.R.S. § 278.020(5).

II. THE PARTIES AND THEIR AFFILIATES

A. GTE

GTE Corporation is a corporation created and existing under the laws of the State of New York, with its principal office located at 1255 Corporate Drive, Irving, Texas 75038-2518. GTE itself is not a regulated telephone company in Kentucky or elsewhere, but its subsidiaries provide telecommunications services on a regulated and unregulated basis in various locations in the United States and in several foreign countries. GTE's regulated incumbent local telephone subsidiaries provide service in 28 states, including Kentucky, and serve a total of approximately 23.5 million access lines. One of these subsidiaries, GTE South, provides local exchange telephone service to approximately 547,288 switched access lines (based on 1998 ARMIS data) throughout Kentucky. GTE South also provides access service and intraLATA toll service between its own exchanges and the exchanges of other local telephone companies.

GTE has several other subsidiaries and affiliates that provide cellular, long distance and competitive local exchange service throughout the country. In Kentucky, GTE Communications Corporation ("GTECC"), formerly GTE Card Services, Inc., d/b/a GTE Long Distance, is authorized to provide competitive local exchange service and to provide long distance service as a reseller and as a facilities based carrier throughout the Commonwealth. GTE also provides wireless communications services in several service areas in Kentucky through three wholly-owned subsidiaries.[2]

In 1998, GTE had annual operating revenues of $25.5 billion. It has a strong balance sheet and investment-grade credit rating. Further information regarding the structure and operations of GTE and its Kentucky affiliates is provided in the testimony of Mr. William Griswold, Vice President -- Centralized Operations for GTE Network Services, as well as in GTE's 1998 Annual Report (Ex. 3), and GTE and Bell Atlantic's Joint Proxy Statement (Ex. 9).

B. Bell Atlantic

Bell Atlantic Corporation is a corporation created and existing under the laws of the State of Delaware. Its principal office is located at 1095 Avenue of the Americas, New York, New York 10036. Bell Atlantic is not a regulated telephone company within Kentucky or elsewhere, but its subsidiaries provide telecommunications services on a regulated and unregulated basis in various locations in the United States and in several foreign countries. Bell Atlantic's regulated local telephone subsidiaries serve a total of approximately 41.6 million access lines in 13 Northeast and Mid-Atlantic states, and the District of Columbia. In 1998, Bell Atlantic had annual operating revenues of $31.6 billion. It has a strong balance sheet and investment-grade credit rating.

In Kentucky, Bell Atlantic has two subsidiaries that are authorized by the Commission to provide regulated services. Bell Atlantic Communications, Inc. ("BACI")

[2] These subsidiaries are: GTE Mobilnet of Clarksville Incorporated (Hopkinsville MSA); GTE Wireless of the Midwest Incorporated (Evansville MSA and Owensboro MSA); and GTE Wireless of the

and NYNEX Long Distance Company ("NLD"), d/b/a Bell Atlantic Long Distance are both switchless resellers of long distance telecommunications services in Kentucky.

Further information regarding the structure and operations of Bell Atlantic and its affiliates is provided in the testimony of Mr. Dennis Bone, President and CEO of Bell Atlantic's West Virginia operating telephone company, as well as in Bell Atlantic's 1998 Annual Report (Ex. 6), and the Joint Proxy Statement (Ex. 9).

C. Service Addresses

Notices and other pleadings in connection with this Joint Application should be served on the Joint Applicants as follows:

For GTE:

Mr. Larry D. Callison
GTE Service Corporation
150 Rojay Dr.
Lexington, KY 40503

Joe W. Foster
GTE Service Corporation
NC999015
4100 N. Roxboro Road
Durham, NC 27704

John Rogovin
Jeff Carlisle
O'Melveny & Myers LLP
555 Thirteenth Street, N.W.
Washington, DC 20004

South Incorporated (Lexington MSA, Louisville MSA, Kentucky No. 2 RSA, Kentucky No. 7 RSA, 50% partnership interest in Kentucky RSA No. 1 Partnership).

For Bell Atlantic:

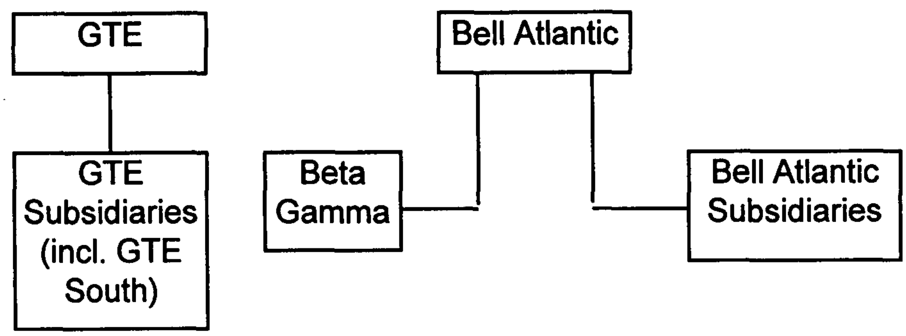
John Walker
Bell Atlantic Corporation
1320 N. Courthouse Road
8th Floor
Arlington, VA 22201

III. DESCRIPTION OF THE TRANSACTION

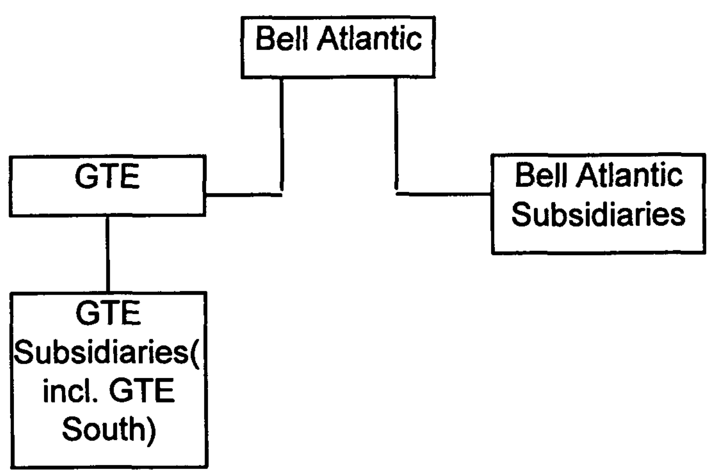
Bell Atlantic and GTE have executed an "Agreement and Plan of Merger" ("Agreement"). This Agreement and all other details surrounding the merger are contained in the Joint Proxy Statement (Ex. 9). Under the terms of the Agreement, the proposed transaction is structured so that GTE will become a wholly-owned subsidiary of Bell Atlantic. *See* Ex. 9 at a-1. The merger has been approved by the boards of directors of both companies, by GTE's shareholders on May 18, 1999 and by Bell Atlantic's shareholders on May 19, 1999. It will be accomplished as follows:

GTE will merge with Beta Gamma Corporation ("Beta Gamma"), a wholly owned subsidiary of Bell Atlantic. Beta Gamma is a New York Corporation that was formed solely for the purpose of facilitating the merger transaction. It has no operations or employees of its own, and it will cease to exist once GTE merges into it. *See id.* at I-I, I-2, I-78, a-1 to a-6. By merging into Beta Gamma, GTE will become a subsidiary of Bell Atlantic, and GTE shareholders will receive 1.22 shares of Bell Atlantic stock for every share of GTE stock in a tax-free exchange. *See id.* After the exchange, the transaction will be complete. No further legal or structural change to any of GTE's operating subsidiaries is required or contemplated. GTE will continue to have exactly the same relationships to GTE South and its other operating companies that it had before the merger. Beta Gamma is thus nothing more than a vehicle to accomplish the merger, and it will have absolutely no impact on service to Kentucky customers. A pre- and post-merger organizational chart would appear as follows:

Pre-Merger



Post-Merger



No bonds, notes, or other forms of indebtedness will be issued to finance the transaction, and no approvals to issue such indebtedness are sought in this Joint Application. The transaction is expected to be tax-free to shareholders and accounted for as a pooling of interests. The merger will be consummated as soon as possible, following regulatory approvals pending in a small number of remaining jurisdictions. *See id.* at a-38 to a-39.

The merged company, based on 1998 pro forma financial analysis, will have revenues of $57 billion and assets of approximately $99 billion. *See id.* at I-13. The headquarters for the merged company will be in New York City. The merged company's board of directors will have equal numbers of directors designated by Bell Atlantic and GTE, and the top management team will be a blend of the senior managers of both companies. The companies' Chief Executive Officers, Mr. Charles Lee for GTE and Mr. Ivan Seidenberg for Bell Atlantic, will share management responsibility for the merged company. Under the terms of the Agreement, Mr. Lee will serve as Chairman and Co-CEO, and Mr. Seidenberg will serve as President and Co-CEO. Beginning on June 30, 2002, Mr. Seidenberg will become the sole CEO, with Mr. Lee continuing as Chairman until June 30, 2004, at which time Mr. Seidenberg will succeed him.

While the merger will change the identity of the corporation ultimately owning GTE South, it will not involve any immediate change in the manner in which GTE South provides service to customers, except for the improvements in service outlined in this Joint Application. Unless and until appropriate Kentucky authorization is sought and received from the Commission to consolidate the operations of GTE South, it will continue as a legal entity separate from any other local exchange carrier. Thus, the merger will not diminish the Commission's regulatory authority over GTE South in any way. Accordingly, GTE South will continue to provide service under the tariffs it has on file with the Commission, and will continue to be governed by all applicable rules and regulations of this Commission.

IV. THE MERGER MEETS KENTUCKY STATUTORY REQUIREMENTS

A. The Merged Company Will Have The Financial, Technical, And Managerial Abilities To Provide Reasonable Service (K.R.S. § 278.020(4))

Bell Atlantic and GTE's qualifications to manage and operate a telecommunications company are manifest. As Messrs. Griswold and Bone explain, they serve millions of access lines across the country, and have done so for many years. Both are generally recognized as leading providers of telephone, wireless, and other telecommunications services, and the merger will in no way diminish their expertise or capabilities. Moreover, the merger is a stock transaction. As such, neither the Joint Applicants nor GTE South will incur any form of indebtedness to finance the merger, nor will any GTE assets need to be sold to finance the merger. Bell Atlantic and GTE both have high credit ratings now and their ratings will remain strong after the merger. Finally, the merged company's total assets will be approximately $99 billion. Thus, the merger will in no way impair, and is likely to improve, the financial strength of the merged company and its subsidiaries. For these reasons, the merged company will have the financial, technical and managerial abilities to continue to provide reasonable service in Kentucky, and thus meets the requirements of K.R.S. § 278.020(4).

B. The Merger Will Be Made In Accordance With Law And For A Proper Purpose (K.R.S. § 278.020(5))

Mr. Griswold explains that the merger will close when GTE and Bell Atlantic have obtained all necessary state and federal regulatory approvals, and it will be consummated in a manner that is consistent with all applicable laws. Furthermore, the merger is consistent with and in furtherance of GTE and Bell Atlantic's legitimate business goals and strategies. Accordingly, the proposed merger will be consummated in accordance with law, and for a proper public purpose, and thus meets this requirement of K.R.S. § 278.020(5).

C. The Merger Is Consistent With The Public Interest (K.R.S. § 278.020(5))

K.R.S. § 278.020(5) also requires the Commission to determine that the merger is "consistent with the public interest." There are two aspects to the Joint Applicants' case in this respect. First, the Joint Applicants provide information and commitments herein sufficient to meet the Commission's concerns expressed in the April 14 Order. Second, in addition to the information and commitments provided in response to the April 14 Order, the merger will have no detrimental effect to GTE South's customers. The merger will, in fact, result in significant benefits to Kentucky customers beyond those discussed in relation to the April 14 Order.

1. The Requirements Of The April 14 Order

In the April 14 Order, the Commission dismissed, without prejudice, the Joint Applicants' previous application for approval of their merger. The Commission requested that the Joint Applicants address several issues in a new filing, and provide additional information and evidence to justify approval of the merger. April 14 Order at 2-4. These issues are addressed in this Joint Application and in the accompanying prefiled testimony.[3] A summary of the Joint Applicants' responses to the Commission's requests for additional information follows:

a. Benefits To Kentucky Of The Proposed Merger

The April 14 Order requires the Joint Applicants to identify benefits resulting from the merger, and specifically to identify advanced services that will be made available in Kentucky and services that will be packaged and offered to Kentucky consumers. *Id.* at 2-3. Mr. Stephen Shore, Assistant Controller -- Wireline Operations for GTE and Controller for GTE South, explains in his testimony that the merger will, after three years, result in $7.2 million per year of net savings attributable to Kentucky intrastate regulated operations, which in turn will make GTE South better able to deploy advanced services faster in Kentucky. Accordingly, as Mr. Griswold explains in his testimony, the Joint Applicants commit that, if the merger is approved, they will extend advanced CLASS services to 100% of GTE South's Kentucky exchanges within 48 months of the consummation of the merger. This means that customers in rural Kentucky will, as a *direct result* of the merger, have access to advanced services such as Caller ID, Call Blocking, Selective Call Forwarding, Anonymous Call Rejection and Call Trace.

As for packages of services that will be offered after the merger, the Joint Applicants will offer packages of local, long distance, data, Internet and wireless services to large business, small business and residential customers that are

[3] Although Kentucky procedure does not usually require the submission of testimony with an application, the Joint Applicants have taken the step of filing such testimony to ensure that the Joint

competitive with those currently offered by its major competitors or that are expected to be offered in the near future. Mr. Jeff Kissell, Vice President for Merger Integration for GTE, explains in his testimony that GTECC's current packaged service offerings provide an indication of the general type of packages that the merged company would be able to offer, but offer on more competitive terms. Mr. Kissell also describes how the merger will allow GTE to develop and deploy long distance, data and other advanced services faster in Kentucky than it would be able to do on its own, making packaged services more available to more Kentucky consumers in a shorter period of time. Mr. Bone explains in his testimony that Bell Atlantic also offers packaged local and CLASS plans, as well as intraLATA local calling plans, which could serve as a model for future calling packages in Kentucky.

b. Service Quality

The April 14 Order requires the Joint Applicants to show that service quality will not erode in Kentucky after the merger. *Id.* at 3. Testimony from Mr. Michael Reed, General Manager -- Customer Operations for the Kentucky Division of GTE South, explains that the merger will not impact GTE South's current level of service, given that the merger entails no change to GTE's operations in Kentucky and will not diminish GTE South's obligation to meet the quality of service standards established by this Commission. Moreover, for the three years following consummation of the merger, the merged company will invest a minimum of $222 million in Kentucky. This commitment is subject to revision only in the event of a change in economic conditions outside of the

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Application can be approved within the 60 day period required by K.R.S. § 278.020(5). Additionally, the merged company's control. This commitment directly addresses the Commission's concern that quality of service might erode, given that capital investment in Kentucky will be maintained at the level necessary to maintain GTE South's current quality of service.

Additionally, as Mr. Reed explains in his testimony, the Joint Applicants commit that, if the merger is approved, they will determine how they can best deploy local calling plans ("LCPs") to the remainder of Kentucky exchanges that do not currently benefit from LCPs, and will file tariffs to this effect in 2000 or 2001. Thus, the merger will result in a clear step forward in bringing enhanced, affordable services to GTE South's rural Kentucky exchanges. Mr. Reed also explains that GTE South will continue addressing problems identified in its Management Audit by undertaking and completing significant capital programs in its service territories.

c. Merger Of Operating Companies

The April 14 Order requires Bell Atlantic and GTE to "supply information concerning their intention to continue operating separately, the expected time frame to merge their operating companies, and the effect that the merger of operating companies would have on rates and services in Kentucky." *Id.* at 3. Mr. John Blanchard, Vice President -- Regulatory and Governmental Affairs -- East for GTE, addresses these issues in his testimony. Because Bell Atlantic does not have an operating company in Kentucky, there are no plans to merge GTE South's Kentucky operations with any other operating company. Indeed, there are only two states where

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Joint Application and all attachments to it have been served on all of the parties to Case No. 98-519.

GTE and Bell Atlantic both have operations: Pennsylvania and Virginia. Even in these states, GTE and Bell Atlantic will continue to operate as separate legal entities and the operating companies will continue to provide services under their own respective tariffs. As such, there will certainly be no adverse impact on the rates and services of GTE South in Kentucky. As Mr. Blanchard further explains, the merger will have no immediate impact on the operations of GTE or Bell Atlantic's long distance affiliates. GTECC, NLD, and BACI will continue to provide services to their customers in the same way they provide services to them today. *See also* § IV.C.4.d, *infra.*

d. <u>Impact Of The Merger On InterLATA Services And Cellular Customers</u>

The April 14 Order requires the Joint Applicants to discuss whether the merger will have an impact on (1) interLATA local calling routes currently provided to GTE South's Kentucky customers; (2) interLATA service currently offered by GTECC to customers in Kentucky; and (3) GTE or Bell Atlantic's cellular customers. As Mr. Blanchard explains in his testimony, § 271 of the 1996 Act, which prohibits Bell Operating Companies such as Bell Atlantic from offering InterLATA services until they meet a 14-point check list, has no application to the merged company in Kentucky. The FCC has made clear that § 271 applies only to Bell Operating Companies in the states in which they operated as of February 7, 1996, the day before the 1996 Act became effective. Thus, because Kentucky was not part of Bell Atlantic's region, the merger will have no effect whatsoever on the merged company's ability to continue GTE's current interLATA services to its Kentucky customers. *See* Order, *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations From: Southern*

New England Telecommuns. Corp., Transferor, to SBC Communs., Inc., Transferee, 13 FCC Rcd 21,292 (1998), ¶¶ 35-36. Accordingly, there will be absolutely no impact of the merger on GTE South's 47 local calling routes that cross interLATA boundaries in Kentucky. For the same reason, the merger will have no impact on the ability of GTECC, NLD or BACI to provide long distance service to customers in Kentucky.

Mr. Blanchard also explains in his testimony that there are no overlaps of Bell Atlantic or GTE affiliated cellular areas in Kentucky. In fact, Bell Atlantic has no cellular properties at all in Kentucky. Thus, while the DOJ required GTE and Bell Atlantic to divest certain wireless properties as a condition to approving the merger, *see* Exhibits 10-12, the merger will have no impact on GTE's current cellular customers in Kentucky.

e. Competition

The April 14 Order required the Joint Applicants to address "the consequences their proposed merger will have on competition and telecommunications services in Kentucky," and discuss the impact of any changes on "GTE's ability to provide reasonable service at fair, just, and reasonable rates." The April 14 Order also requires the Joint Applicants to explain why "the merger will not enable the Joint Applicants to exercise inappropriate market power in Kentucky." April 14 Order at 4.

Dr. William E. Taylor, Senior Vice President of National Economic Research Associates, Inc. ("NERA") and head of its telecommunications practice, explains why there will be no negative impact on competition in GTE South's territories as a result of GTE South becoming part of a larger corporate entity. Dr. Taylor also explains that the DOJ has determined that, with the divestiture of certain overlapping wireless properties, the merger will not violate federal anti-trust laws. Accordingly, the DOJ has disposed of any argument that the merger could result in anticompetitive effect in Kentucky or in any other GTE or Bell Atlantic local exchange territory. *See also* Exs. 10-12. Furthermore, Mr. John Peterson, Director -- Wholesale Contract Compliance for GTE Network Services, explains that the merger cannot have an anti-competitive effect in Kentucky because it will not diminish the Commission's regulatory authority and will not remove any of GTE South's obligations under its interconnection agreements with competitors.

The merger will, in fact, result in pro-competitive benefits, as Mr. Kissell and Dr. Taylor explain in their testimony. The merged company will enter Louisville to provide local exchange and other services in direct competition with BellSouth within 18 months following consummation of the merger. The merger will also result in greater competition in the long distance and Internet market, as Mr. Kissell also explains.

Because there will be no anti-competitive effect of the merger, and in fact the merger will result in pro-competitive benefits, there will be no impact on GTE South's ability to provide reasonable service at fair, just, and reasonable rates. Indeed, given that GTE South will continue to be subject to the Commission's authority, there can be no adverse impact on GTE South's ability to provide such service, as Mr. Blanchard explains in his testimony.

f. Costs And Savings

The April 14 Order requires the Joint Applicants to provide an analysis of total projected merger costs and savings and to describe all of their assumptions. April 14 Order at 4. Furthermore, the April 14 Order requires the Joint Applicants to allocate costs and savings to the Kentucky jurisdictional level, including a plan of how "tangible cost savings" will be provided "through rate reductions or network upgrades." *Id.* Mr. Paul Shuell, Vice President and Controller for GTE, explains in his testimony that the merger will result in an estimated $2 billion in cost savings and an estimated $0.5 billion in capital synergies across all operations of both companies. To achieve these synergies, Mr. Shuell estimates that the merged company will incur $1.8 billion in transaction and implementation costs over the three years following consummation of the merger. Mr. Shore explains in his testimony that after merger costs are netted against merger savings and net savings are properly allocated to intrastate regulated GTE South operations in Kentucky, net costs savings are estimated to be $7.2 million after the third year following consummation of the merger. The Joint Applicants have also provided the work papers on which their analysis is based.

In general, these savings will help contain cost pressures across the merged company, thus freeing resources for investing in new services, enhancing service quality and competing more effectively against other companies, which are themselves striving to achieve such efficiencies through their own recent mergers and planned mergers. Specific to Kentucky, however, the Joint Applicants anticipate that cost synergies allocable to Kentucky will place the merged company in a better position to deploy the advanced services discussed above, and commits to make advanced CLASS services available in all of its local exchanges within 48 months of the consummation of the merger. *See* § IV.C.1.a, *supra*.

As Mr. Blanchard discusses in his testimony, a rate reduction is neither necessary nor appropriate. The Joint Applicants have already made a considerable financial commitment by committing to expand CLASS services, and to make a significant portion of the necessary investment before GTE South realizes any cost savings as a result of the merger. Furthermore, a rate reduction based on estimated, as opposed to actual, cost reductions ignores the fact that GTE South will continue to be regulated on a rate-of-return basis and make regular financial reports to the Commission. Accordingly, after savings are actually and fully realized by GTE South, and if these savings increase GTE South's rate-of-return beyond that currently allowed by the Commission, the Commission will have the ability to act appropriately.

2. Additional Public Interest Considerations

In addition to the commitments and information provided in response to the April 14 Order, numerous other aspects of the merger indicate that it is consistent with the public interest. The witnesses who have provided information in response to the April 14 Order discuss each of these aspects in greater detail. These additional issues can be categorized into two groups: (1) absence of detrimental effect; and (2) affirmative benefits of the merger

a. <u>Absence of Detrimental Effect</u>

- As Mr. Griswold explains, the merger will not require the issuance of any debt, and thus will not impair GTE South's capital infrastructure. Indeed, the merger will undoubtedly strengthen GTE South's capital infrastructure.
- As Mr. Griswold and Mr. Blanchard explain, the merger will not result in any structural change to GTE South, or any consolidation of the operations, lines, franchises or permits of GTE South. Nor will it result in any change to rates, terms and conditions of GTE South service.
- As Mr. Blanchard explains, the merger will in no way diminish this Commission's regulatory authority or impede the satisfaction of its public policy goals.
- As Mr. Griswold explains, the merger will do nothing to diminish GTE South's commitment to provide service to large business, small business and residential customers and to continue to act as a responsible corporate citizen in Kentucky.
- As Mr. Griswold explains, the merger will have no material impact on levels of hourly employees, and all existing union contracts will be honored. In the longer term, it is anticipated that the merger will generate more job opportunities by positioning the merged company to compete more effectively in the telecommunications market. Thus, the merger is supported by the Communications Workers of America and the International Brotherhood of Electrical Workers.

- As Dr. Taylor and Mr. Peterson explain, the merger will not result in the increase of any market share of GTE South and will not have an anti-competitive effect. This has been confirmed by the DOJ's recent decision to decline to seek an injunction against the merger because of any alleged anti-competitive effect.

b. Affirmative Benefits

In addition to the commitments the Joint Applicants are making in response to the April 14 Order, the merger will result in additional direct benefits to Kentucky consumers.

These benefits are consistent with the reasons Bell Atlantic and GTE have decided to merge. The two companies are merging because, in the rapidly changing and increasingly competitive market for telecommunications services, they can better serve existing and new customers together than either company could alone. GTE's and Bell Atlantic's goals in this environment have been similar for some time. For example, each company wants to ensure that, in the face of intense competition, it can remain a strong provider of telecommunications services in its current territories with the ability to accelerate deployment of advanced services to its customers. In addition, each of them wants to be a fully integrated telecommunications service provider, able to offer business and residential customers local and long distance voice, data, video, and wireless services.

The merger, then, allows Bell Atlantic and GTE to build on their strengths and offer additional benefits to the public in a variety of ways, which are fully described in the Joint Proxy Statement. Ex. 9 at pp. I-23 to I-25. The benefits can be summarized as follows:

- As was noted above and as Mr. Griswold explains, the merger will result in a larger, more efficient company with increased financial strength. Furthermore, as Messrs. Shuell and Shore explain, the Joint Applicants anticipate that the merged company will be able to reduce overall expenses by $2 billion within three years of closing through such means as greater purchasing power and the elimination of redundant systems and reduced corporate overheads. After merger costs are netted against merger savings and after the net savings are properly allocated to intrastate regulated GTE South operations in Kentucky, net cost savings are estimated to be $7.2 million after the third year following consummation of the merger.
- As Mr. Griswold explains, the merged company will be able to draw upon the expertise and abilities of personnel from both companies. Taking advantage of the best that the two companies have to offer will allow both companies to better maintain and improve the quality and efficiency of the service provided by GTE South.
- As Mr. Kissell explains, the merger will increase the competitiveness of the data telecommunications market. GTE is currently the nation's fourth largest provider of Internet "backbone" services,[4] and intends to expand that capability by continuing construction of a planned fifteen thousand mile, high-

speed, national fiber network. Today, however, GTE's backbone service is dependent in large part on facilities leased from MCI WorldCom. The opportunity to add Bell Atlantic's customer base will greatly increase the volume of data and Internet traffic GTE carries, which will accelerate the build-out of its national data network, and allow more facilities-based competition sooner with the other large backbone providers.

- Similarly, as Mr. Kissell also explains, the merger will create more facilities-based competition in the long distance market. At present, GTE is a reseller of long distance (in Kentucky and elsewhere), and is dependent primarily on MCI WorldCom's facilities. Although it hopes to transition some of its long distance traffic onto its own network, GTE's customer base alone will not support a fully national facilities-based network. The opportunity to add the traffic generated by Bell Atlantic's customers will increase GTE's ability to construct the long distance facilities needed to compete with the three dominant providers.
- As Mr. Kissell also explains, the merged company will have the facilities-based network and the scale and scope necessary to compete with the small number of national and international telecommunications carriers capable of providing a complete package on one bill of all services customers increasingly demand (local and long distance voice, data, video, and wireless).

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[4] GTE Internetworking has only about half the market of MCI WorldCom. Sprint and Cable &

3. Application Of Legal Standard

The Commission has routinely found that mergers that result in no detriment to customers are consistent with the public interest and has approved them. For example, the Commission approved the acquisition of Louisville Lightwave by Hyperion Telecommunications, one of GTE South's competitors. In its order, the Commission did not discuss any positive benefits, but instead only mentioned that "[Hyperion] will continue to provide all telecommunication services currently provided by Louisville Lightwave" and that the merger "will have no impact on the quality of service currently provided to the public by Louisville Lightwave or the rates charged therefor." Order, *Joint Application for Transfer of Partnership Interests of Hyperion Telecommuns. of Kentucky, Inc. & TCI TKR of Kentucky, Inc.*, Case No. 97-478 at 3 (Ky. P.S.C. 1997) (Slip Op.). Furthermore, the Commission approved the merger of WorldCom and MFS on the basis that it would not "involve a change in the manner in which the Kentucky operating subsidiaries provide telecommunications services" or "disrupt service or cause inconvenience or confusion to the customers of [MFS], who will be notified of the merger." Order, *Application of WorldCom, Inc. & MFS Communs. Co.*, Case No. 96-432 at 2 (Ky. P.S.C. 1996) (Slip Op.) The Commission further noted that the merged company would "rely on many of its existing management and operational staff and the expertise of WorldCom and its operating subsidiaries." *Id. See also* Order, *Joint Application of Telespectrum, Inc. and Independent Cellular Network, Inc.*, Case No. 96-371 at 2 (Ky. P.S.C. 1996) (Slip Op.); Order, *Avery Commmuns., Inc.*, Case No. 96-371

Wireless also are estimated to have more of the backbone market than GTE.

at 2 (Ky. P.S.C. 1996) (Slip Op.); Order, *Pennsylvania Alternative Communs., Inc.*, Case No. 96-206 at 2 (Ky. P.S.C. 1996) (Slip Op.); Order, *Lake Columbia Estates Sewer Sys.*, Case No. 95-175 at 2 (Ky. P.S.C. 1996) (Slip Op.).

Thus, the Commission can find that the merger of GTE and Bell Atlantic is consistent with the public interest because the commitments and information outlined above clearly show that the merger will have no detrimental impact on Kentucky consumers. The merger will, in fact, benefit Kentucky consumers, further showing that it is consistent with the public interest. Indeed, the commitments and information outlined above go far beyond the benefits occasionally noted by the Commission when it has examined mergers under K.R.S. § 278.020(5). For example, when the Commission approved the merger of GTE and Contel, it stated only that the operations of the two companies complemented one another,

> potentially resulting in better service to the public. The merger should also create operational improvements by the united management skills at the corporate level. The merger should enhance GTE's financial resources and increase Contel Corporation's access to capital. The proposed transaction is to be transparent to Kentucky ratepayers because it occurs at the corporate level. There is currently no plan to change the service offerings, customers, or rates and tariffs of the regulated subsidiaries of Contel. Also, it is anticipated that the present management of the regulated subsidiaries in Kentucky will continue after the merger.

See Order, *Joint Application of GTE Corp. & Contel Corp.,* Case No. 90-278 at 3-4 (Ky. P.S.C. 1990) (Slip Op.). *See also* Order, *Application for Approval of Transfer of Assets & a Cert. of Pub. Convenience & Necessity from Target Telecom, Inc. to TTI Nat'l, Inc.*, Case No. 96-203 at 2 (Ky. P.S.C. 1996) (Slip Op.); Order, *Application for Authority for*

Rochester Tel. Corp. to Acquire Control of West Coast Telecommuns., Inc., Case No. 94-491 at 2-3 (Ky. P.S.C. 1995) (Slip Op.).

The proposed merger will have no detrimental impact as in *WorldCom/MFS* and will result in benefits similar to and exceeding those described in *GTE/Contel.* Thus, the merger is entirely consistent with the legal standard applied by the Commission in these and many other cases, and should be approved.

VII. CONCLUSION

The merged company will have the financial, technical and managerial abilities to provide reasonable service. Therefore, the Commission should grant its approval for the merger under K.R.S. § 278.020(4). Furthermore, the proposed merger is to be made in accordance with law, is for a proper purpose, and is consistent with the public interest. Accordingly, the Kentucky Commission should also approve the proposed merger under K.R.S. § 278.020(5).[5]

[5] The Kentucky Commission, by order entered January 8, 1998, in Administrative Case No. 370, exempted CLECs and wireless carriers from obtaining approvals of transfers pursuant to K.R.S. 278.020(4) or (5). They are thus merely required to notify the Commission of the transfer. GTECC, GTE Wireless of the South Incorporated, GTE Wireless of the Midwest Incorporated, GTE Mobilnet of Clarksville Incorporated and Kentucky RSA No. 1 Partnership hereby notify the Commission that control of these entities is proposed to be transferred from GTE to Bell Atlantic as a result of this merger.

WHEREFORE, the Joint Applicants respectfully request that the Commission authorize the transfer of control of GTE to Bell Atlantic and allow such further relief as is necessary.

Adoption Notices are not being filed since the merger will not alter the companies that actually provide the telecommunications services. The regulated subsidiaries will continue to operate the utility businesses in accordance with their existing tariffs.

Respectfully submitted this the 9th day of July, 1999.

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EXHIBITS

Exhibit No. 1	Certified Articles of Incorporation of GTE Corporation
Exhibit No. 2	Certified Resolutions of the Board of Directors of GTE Approving Merger
Exhibit No. 3	GTE Corporation 1998 Annual Report
Exhibit No. 4	Certified Articles of Incorporation of Bell Atlantic Corporation
Exhibit No. 5	Certified Resolutions of the Board of Directors of Bell Atlantic Approving Merger
Exhibit No. 6	Bell Atlantic Corporation 1998 Annual Report
Exhibit No. 7	National and State Wireline Service Territory Maps
Exhibit No. 8	National and State Wireless Service Area Maps
Exhibit No. 9	Joint Proxy Statement
Exhibit No. 10	Press Release Regarding Department of Justice Consent Decree
Exhibit No. 11	Letter from Hilary Burchuk to United States District Court for the District of Columbia, Complaint and Stipulation
Exhibit No. 12	Department of Justice Competitive Impact Statement
Exhibit No. 13	"Telecommunications Merger Policy: The Double Standard Hurts Workers"

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of: JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	)))))))	CASE NO. 99-____

DIRECT TESTIMONY

OF

WILLIAM GRISWOLD

ON BEHALF

OF

GTE CORPORATION

SUBJECT: OVERVIEW AND BENEFITS OF THE MERGER

JULY 9, 1999

DIRECT TESTIMONY OF WILLIAM GRISWOLD

I. Background And Purpose

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William A. Griswold and my business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR JOB TITLE?

A. I am employed by GTE Network Services as Vice-President – Centralized Operations for GTE Network Services.

Q. PLEASE DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.

A. I received a bachelor's degree in political science from Illinois State University. I began my GTE career in 1973 in Illinois. After serving in several assignments in Illinois, and later in GTE's Wisconsin operations, I was appointed Director – Quality in Westfield, Indiana, in 1986. In 1991, I was named Director – Special Services and Network Administration at GTE Telephone Operations Headquarters in Irving, Texas. I was appointed Regional Vice President – General Manager of GTE's Ohio Operation in 1993 and was named Regional President of GTE's Northeast Region, located in Marion, Ohio in 1994. I was appointed to my current position in May, 1999.

Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT POSITION?

A. I oversee National Operations Centers for GTE Network Services, which includes monitoring and surveillance of the national wireline and wireless networks, database management, customer repair centers and operator services.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide (1) an overview of the operations of GTE Corporation ("GTE"), (2) a summary of the merger of GTE and Bell Atlantic Corporation ("Bell Atlantic"), (3) an overview of the reasons for and benefits of the merger, and (4) an explanation of how the merger will expand advanced services in Kentucky, and in no way impair their deployment. My testimony shows how the merger meets the statutory standard for approval in Kentucky and how the Joint Applicants have provided the additional information required by the Commission's order dated April 14, 1999 in the merger case originally filed by GTE and Bell Atlantic, Case No. 98-519 (the "April 14 Order").

II. Summary

Q. PLEASE SUMMARIZE WHY THE COMMISSION SHOULD APPROVE THE JOINT APPLICATION.

A. I am not an attorney, but I understand that under Kentucky Revised Statutes § 278.020, the Commission will approve a merger if it determines that the "person acquiring the utility has the financial, technical and managerial abilities to provide reasonable service," and that the merger is "in accordance with law, for a proper purpose, and is consistent with the public interest." The merger meets these standards, and should be approved by the Commission.

First, GTE and Bell Atlantic have the financial, technical and managerial abilities to allow GTE South Incorporated ("GTE South") to continue providing reasonable service in Kentucky. As I explain below, the merged company will benefit from the considerable experience of each company, and have significant financial resources.

Second, the merger will be made in accordance with law and for a proper public purpose. The merger will only be consummated after all federal and state regulatory approvals are obtained. Section 8.1 of the Merger Agreement, which is part of the Joint Proxy Statement filed with the Commission as Exhibit 9 of the Joint Application, makes compliance with federal and state regulatory requirements a precondition of the merger. Moreover, GTE and Bell Atlantic are merging to advance their legitimate business interests and the interests of their customers, employees and shareholders.

Third, the merger is consistent with the public interest because: (1) the Joint Applicants have provided all information and made all commitments required by the Commission in its April 14 Order in their application and the testimony attached to it; (2) the merger will cause no detriment to Kentucky consumers; and (3) the merger will result in positive benefits to Kentucky consumers.

The question is not so much whether the merger is consistent with the public interest, because it is clearly consistent with the public interest. Rather, the question the Commission must ask itself is how *denying* the merger could possibly benefit Kentucky consumers. The merger will result in significant benefits to Kentucky consumers, who will be served by one of the world's premier telecommunications companies.

III. Overview Of GTE And The Merger Transaction

Q. PLEASE DESCRIBE THE BUSINESS AND OPERATIONS OF GTE.

A. GTE, a New York corporation, is a diversified telecommunications corporation with subsidiaries that provide voice and data transport and calling services, network access, Internet access, directory publishing and public telephone services to customers across the country. GTE is also one of the largest investors in the high-growth global wireless marketplace. GTE's local telephone subsidiaries, which are subject to state public utility regulation, operate in 28 states – Alabama, Alaska, Arizona, Arkansas, California, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, and Wisconsin. The Federal Communications Commission ("FCC") regulates the interstate services that GTE's local telephone subsidiaries provide to end users and interexchange carriers.

GTE's subsidiary, GTE South, provides local exchange telephone service to 547,288 switched access lines (based on 1998 ARMIS data) in local exchanges throughout Kentucky. In addition, GTE South provides access service and intraLATA toll service between its own exchanges and the exchanges of other local telephone companies.

Other GTE subsidiaries and affiliates also provide telecommunications services in Kentucky. GTE Communications Corporation ("GTECC"), formerly GTE Card Services, Inc., d/b/a GTE Long Distance, is licensed in 29 states around the country to provide competitive local exchange service and in all 50 states to provide interstate and intrastate long distance service. In Kentucky, GTECC is authorized to provide competitive local exchange service statewide, and to offer long distance service as a reseller and as a facilities based carrier. GTE Mobilnet of Clarksville Incorporated owns and operates wireless communications facilities in the Hopkinsville MSA. GTE Wireless of the Midwest Incorporated owns and operates wireless communications facilities in the Evansville MSA and Owensboro MSA. GTE Wireless of the South Incorporated owns and operates wireless communications facilities in the Lexington MSA, Louisville MSA, Kentucky No. 2 RSA and Kentucky No. 7 RSA and owns a 50% partnership interest in Kentucky RSA No. 1 Partnership.

In 1998, GTE had annual operating revenues of $25.5 billion. It has a strong balance sheet and solid investment-grade credit rating. Its operating companies serve approximately 23.5 million access lines around the country.

Further information regarding GTE, its operations and the operations of its subsidiaries has been provided in the 1998 Annual Report for GTE, which has been provided as Exhibit 3, and the Joint Proxy Statement (Ex. 9).

Q. PLEASE DESCRIBE THE MECHANICS OF THE MERGER BETWEEN GTE AND BELL ATLANTIC.

A. The actual mechanics of the merger of GTE and Bell Atlantic are straightforward and are described in the Joint Application and the Merger Agreement, which is part of the Joint Proxy Statement (Ex. 9). The merger will be accomplished as follows: Bell Atlantic has created a wholly owned subsidiary, Beta Gamma Corporation that will merge into, and with GTE. GTE will survive the merger as a wholly owned subsidiary of Bell Atlantic. Although GTE will technically be a subsidiary of Bell Atlantic, the merger is a "merger of equals," and Bell Atlantic is not "taking over" GTE.

The Merger Agreement provides for a stock-for-stock exchange. At the effective date of the merger, each outstanding share of GTE common stock will be canceled and converted into the right to receive 1.22 shares of common stock of Bell Atlantic. No fractional share certificates will be issued; any fractional holdings will be converted into cash. In addition, outstanding options to purchase GTE common stock will be canceled and be converted into options to purchase, for each share of GTE common stock for which an option was held, 1.22 shares of Bell Atlantic common stock. No bonds, notes or other forms of indebtedness will be issued to finance the merger. The merger is intended to qualify as a tax-free reorganization under Section 368 of the Internal Revenue Code.

Q. **CAN YOU EXPLAIN HOW GTE AND BELL ATLANTIC WILL CONSOLIDATE MANAGEMENT FUNCTIONS AT THE CORPORATE LEVEL?**

A. Yes. After the merger, corporate governance responsibilities will be evenly divided between the two corporations. Upon the merger closing, the Boards of

Directors of GTE and Bell Atlantic will each have selected half of the new Board of Directors for the merged company. The directors of the merged company shall be directors selected by Bell Atlantic and GTE, respectively, to the extent possible from current directors of each corporation. Until July 1, 2002, the new Board will nominate GTE and Bell Atlantic directors for election to maintain equality on the new Board.

After the merger, Charles R. Lee, Chairman and Chief Executive Officer of GTE, will become Chairman and Co-Chief Executive Officer of the merged company. Ivan G. Seidenberg, current Chairman and Chief Executive Officer of Bell Atlantic, will assume the position of Co-Chief Executive Officer and President of the merged company. On July 1, 2002, Mr. Seidenberg will become the sole Chief Executive officer and will continue as President of the merged company, with Mr. Lee continuing as Chairman of the Board of Directors of the merged company. On July 1, 2004, Mr. Seidenberg will become Chairman of the Board of Directors and Chief Executive Officer of the merged company.

Q. WHERE WILL THE HEADQUARTERS OF THE MERGED COMPANY BE LOCATED?

A. The corporate headquarters will be located in New York, New York.

Q. PLEASE DESCRIBE SOME OF THE FINANCIAL AND OPERATING CHARACTERISTICS OF THE MERGED COMPANY.

A. The merged company will become the second largest telecommunications corporation in terms of revenues in the United States. The relevant statistical data as of December 31, 1998 for the merged company are as follows:

Total Assets	$99 billion
Operating Revenues	$57 billion
Net Income	$6.9 billion
Employees	255,000
Domestic Access Lines	63.2 million
Domestic Wireless Customers	10.6 million

After the merger, the merged company is expected to continue to have a strong credit rating and will work closely with the credit rating agencies to communicate its operational, financial, and business strategies. The long-term financial objective of the merged company will be to maintain a credit rating that will allow the merged company financial flexibility.

Q. DOES THE MERGER REQUIRE THE SALE OF ANY GTE ASSETS IN KENTUCKY OR THE CONSOLIDATION OF GTE SOUTH INTO ANY OTHER AFFILIATE OF GTE OR BELL ATLANTIC?

A. No, it does not. With respect to consolidation of operations and operating companies, Mr. Blanchard discusses this topic in greater detail in his testimony.

Q. HOW WILL THE MERGER AFFECT GTE SOUTH'S OPERATIONS?

A. The merger will not affect GTE South's day-to-day operations. GTE South will continue to provide service in Kentucky as it did prior to the merger, under its established tariff rates, terms and conditions. It will continue to be a certified provider of telecommunications services in Kentucky. Furthermore, no operations, lines, plants, franchises or permits of GTE South will be merged with the lines, plants, franchises, or permits of any affiliate of Bell Atlantic. Accordingly, the merger will be transparent to GTE South's current customers.

However, while customers in Kentucky will receive the same service at the same rates from the same regulated entity both before and after the merger, and the merger will have no negative impact on state operating systems, the merger is nevertheless expected to result in a more efficient and customer-focused company in general. Thus, the merger will result in benefits at the state level over the long term.

Q. **WHAT IMPACT WILL THE MERGER HAVE ON THE FINANCIAL CONDITION OF GTE SOUTH AND ITS ABILITY TO ATTRACT CAPITAL ON REASONABLE TERMS?**

A. The merger of GTE and Bell Atlantic parent companies will improve the financial resources of GTE South and strengthen its ability to attract capital on reasonable terms. As I mentioned above, GTE South will become an indirect subsidiary of one of the largest telecommunications companies in the world, with combined assets of $99 billion, total annual operating revenue of $57 billion and annual net income of $6.9 billion. This will result in direct and tangible benefits to GTE South's financial strength. Thus, if anything, GTE South's ability to obtain short term debt and equity capital will be improved by the merger.

Q. WILL THE STATE OF INCORPORATION OF GTE SOUTH BE CHANGED?

A. No. GTE South will remain a Virginia corporation.

Q. HOW WILL THE MERGER IMPACT GTE SOUTH'S RELATIONSHIP WITH THIS COMMISSION?

A. Because the merger is simply an indirect transfer of control of GTE's regulated entities in Kentucky, it will not change the regulated subsidiaries' relationship with the Commission in any way. Mr. Blanchard discusses the regulatory implications of the merger in greater detail in his testimony.

IV. The Merger Meets Kentucky's Statutory Requirements

Q. WHAT IS YOUR UNDERSTANDING OF THE STANDARD THIS COMMISSION MUST APPLY WHEN REVIEWING MERGERS UNDER KENTUCKY LAW?

A. As I stated above, I am not an attorney and cannot give a legal opinion, but as I understand it, the Commission must determine that the merged company will have the financial, technical and managerial abilities to provide reasonable service, and must also determine that the merger is in accordance with law, for a proper purpose, and consistent with the public interest.

Q. DO GTE AND BELL ATLANTIC HAVE THE FINANCIAL, TECHNICAL AND MANAGERIAL ABILITIES TO ALLOW GTE SOUTH INCORPORATED TO CONTINUE PROVIDING REASONABLE SERVICE IN KENTUCKY?

A. Yes, they do. As I described above, the merger will not require GTE, Bell Atlantic or GTE South to incur any indebtedness, and the merged company will obviously have the financial capability to allow GTE South to continue providing reasonable service in Kentucky. Moreover, under the authority granted by this Commission, GTE has operated an ILEC in Kentucky for decades, and its financial, managerial and technical abilities are uncontested as a matter of public record. Mr. Bone addresses these issues as they relate to Bell Atlantic. In general, GTE and Bell Atlantic serve millions of access lines across the country, and have done so for many years. Both are generally recognized as leading providers of telephone, wireless, and other telecommunications services. Thus, the merged company will clearly have the financial, managerial and technical skills to allow GTE South to continue providing reasonable service.

Q. IS THE MERGER IN ACCORDANCE WITH LAW AND FOR A PROPER PUBLIC PURPOSE?

Yes. The merger will only be consummated after all federal and state regulatory approvals are obtained, and only in a manner that is consistent with state and federal law. *See* Merger Agreement, Section 8.1, Exhibit 9, pp. a-35 to a-36. Additionally, the merger is not being undertaken for any reason that could be characterized as an "improper" public purpose -- GTE and Bell Atlantic are merging to advance their legitimate business interests and the interests of their customers, employees and shareholders.

Q. IS THE MERGER CONSISTENT WITH THE PUBLIC INTEREST?

A. Yes. As I stated above, the merger is consistent with the public interest because: (1) the Joint Applicants have provided all information and made all commitments required by the Commission in its April 14 Order in their application and the testimony attached to it; (2) the merger will cause no detriment to

Kentucky consumers; and (3) the merger will result in positive benefits to Kentucky consumers.

A. The Joint Applicants Have Provided The Information And Commitments Required By The April 14 Order

Q. PLEASE SUMMARIZE THE COMMITMENTS THE JOINT APPLICANTS HAVE MADE TO RESPOND TO THE COMMISSION'S APRIL 14 ORDER.

A. The Joint Applicants are willing to make the following commitments, contingent on merger approval, in response to the concerns of the Commission as reflected in the April 14 Order:

- The Commission's April 14 Order requires the Joint Applicants to specify the advanced services they will make available in Kentucky. If the merger is approved, the Joint Applicants commit that the merged company will extend advanced CLASS services to 100% of GTE South's exchanges within 48 months of consummation of the merger.

  As the Commission knows, CLASS services include such services as Caller ID, call trace, selective ringing, selective call blocking, anonymous call rejection, and so on. The cost of upgrading GTE South's network to provide such services is so high that they are not yet available in all of GTE South's exchanges in Kentucky. At the present time, this cost is estimated to be $23.7 million. Given the considerable investment required, GTE South has no current plans to expand CLASS services beyond already planned levels. However, as Messrs. Shuell and Shore discuss in their testimony, the merger will result in synergies allocable to Kentucky intrastate regulated operations of

$7.2 million after the third year following consummation of the merger. These cost savings will place GTE South in a better position to bear the expense of extending CLASS services to the exchanges that do not currently have such services. Accordingly, the commitment to do so within a specific time period represents a tangible use of the synergies allocable to Kentucky, and also clearly demonstrates that the Joint Applicants continue to be committed to deploying advanced services in Kentucky.

- With respect to other enhanced services, the Joint Applicants commit that, if the merger is approved, the merged company will deploy additional local calling plans in Kentucky. Mr. Reed explains this commitment in greater detail in his testimony.

- The April 14 Order also requires the Joint Applicants to ensure that service quality does not erode in Kentucky after the merger. If the merger is approved, the Joint Applicants commit that they will maintain pre-merger capital investment levels for three years following consummation of the merger, representing a minimum commitment of $222 million of investment in Kentucky over this period. Mr. Reed discusses this commitment in greater detail in his testimony.

Q. HOW DO YOU RESPOND TO THE COMMISSION'S REQUEST FOR FURTHER INFORMATION ABOUT PACKAGED SERVICES THE MERGED COMPANY WILL PROVIDE IN KENTUCKY?

A. Mr. Kissell addresses this question in his testimony.

Q. HOW DO YOU RESPOND TO THE COMMISSION'S CONCERNS ABOUT CONSOLIDATION OF GTE AND BELL ATLANTIC'S OPERATING COMPANIES?

A. Mr. Blanchard addresses this question in his testimony.

Q. WILL THE MERGER HAVE ANY IMPACT ON INTERLATA LOCAL CALLING PLANS OFFERED BY GTE SOUTH OR INTERLATA INTEREXCHANGE SERVICES OFFERED BY OTHER AFFILIATES OF GTE AND BELL ATLANTIC?

A. No, it will not. Mr. Blanchard explains the reason for this in detail in his testimony.

Q. HOW DO YOU RESPOND TO THE COMMISSION'S CONCERNS ABOUT COMPETITION AND MARKET POWER?

A. Dr. Taylor addresses this requirement by explaining how the merger will not only have no anticompetitive effect, but will result in benefits to local competition. Additionally, Mr. Blanchard explains that changes in competition will have no impact on GTE's ability to provide reasonable service at fair, just and reasonable rates. Mr. Kissell explains the pro-competitive benefits that will result from the merger, and Mr. Peterson explains how GTE South's markets are currently open and will remain so regardless of the merger.

Q. HOW DO YOU RESPOND TO THE COMMISSION'S REQUEST FOR INFORMATION REGARDING CALCULATION OF SYNERGIES AND PLANS FOR HOW THESE SYNERGIES WILL RESULT IN TANGIBLE COST

SAVINGS THROUGH RATE REDUCTIONS OR NETWORK UPGRADES IN KENTUCKY?

A. Messrs. Shuell and Shore describe the calculation of synergies and their allocation to Kentucky intrastate regulated operations. The Joint Applicants have also provided, on a confidential basis, the workpapers they used in order to further explain their assumptions and underlying methodology. The savings allocable to Kentucky will place GTE South in a better position to expand advanced services. Mr. Blanchard also explains in his testimony that a rate reduction is neither appropriate nor necessary.

B. The Merger Will Have No Detrimental Impact

Q. CAN YOU EXPLAIN WHY THE MERGER WILL HAVE NO DETRIMENTAL IMPACT?

A. Yes. As I have pointed out above, the merger will not (1) change the rates, terms and conditions of the services GTE South currently provides in Kentucky, (2) impair GTE South's current capital structure, or (3) diminish this Commission's regulatory authority over GTE South. GTE South will continue to provide high quality telecommunications services, from residential services to ADSL data services, in the same way as it is providing them today. In fact, as I discuss in greater detail below, its ability to provide these services will be enhanced.

Q. WILL THE PROPOSED MERGER HAVE A NEGATIVE EFFECT ON EMPLOYMENT IN KENTUCKY?

A. No. The merger is being driven primarily by growth opportunities it presents to the merged company, not by a desire to cut costs by eliminating jobs. The merger is not expected to have a material impact on employment levels of GTE South hourly employees, and all existing union contracts will be honored. In the longer term, it is anticipated that the merger will generate more job opportunities by positioning the companies to compete more effectively in the telecommunications market.

Q. DO THE UNIONS SUPPORT THE MERGER?

A. Yes. The Communications Workers of America ("CWA"), which represents 630,000 workers, 25,000 of whom are employees of GTE, and the International Brotherhood of Electrical Workers ("IBEW"), which represents 750,000 workers, 18,000 of whom are employees of GTE, both support the merger. The CWA filed comments before the FCC "urg[ing] the Commission to approve the Bell Atlantic and GTE merger because it will benefit both consumers and workers."[1] The CWA states that "it is in the public interest to create large competitors with the size and scope to compete effectively," and that "the merger will stimulate the growth of high-quality new jobs as a result of the new investment that the merged company will create in entering new markets as well as in deploying new technologies and services." By contrast, the CWA states that absent the merger, Bell Atlantic and GTE will be at a disadvantage in competing for services to large business customers, which "would have a serious negative impact on employment at Bell Atlantic."

[1] *In the Matter of GTE Corp., Transferor, and Bell Atlantic Corp., Transferee, for Consent to Transfer of Control,* CC Docket No. 98-184, Comments of CWA (Nov. 23, 1998).

In Kentucky, the CWA District 3 submitted a letter to the Commission in the previous merger docket, stating that it believed "it is in our members' best interest for this merger to be approved," and urged the Commission to do so.[2]

Additionally, the CWA and the IBEW released a joint press release stating that "this merger could create more job stability and growth opportunities for workers."[3] Just recently, CWA President Morton Bahr and AFL-CIO President John Sweeney said the merger will provide substantial benefits to workers and consumers. In a March, 1999 press release, Mr. Bahr said, "[r]egulators should be expediting these mergers, which will create quality, high-tech jobs for workers and will bring expanded information technology to consumers."

The CWA summarized its strong support of the merger in the recently published paper, "Telecommunications Merger Policy – The Double Standard Hurts Workers and Consumers," which is attached as Exhibit 13 to the Joint Application. The paper contrasts the recent spate of IXC mergers that, according to the paper, result in job *cuts*, with the SBC and Bell Atlantic mergers that have resulted and will result in job *creation*. Moreover, as the paper notes, "the jobs that these mergers will create will be good jobs . . . [and Bell Atlantic] recognize[s] the value of a high-skill, high quality, productive workforce and good labor-management relations."[4]

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[2] Letter from Harry McFarland to Mr. Edward J. Holmes, Ky. P.S.C. (Mar. 26, 1999).
[3] Joint Press Release, IBEW, CWA, Nov. 23, 1998.
[4] Exhibit 13 at 6.

The CWA paper also recognizes that regulators should allow the Bell companies to participate in the global marketplace and achieve the size and scope necessary to compete effectively. Furthermore, it notes that regulatory barriers to bundled services, disincentives to broadband investment, obligations to serve everyone, and tougher merger review standards have already created an unlevel playing field.[5] Thus, the paper concludes that absent the ability to grow, the local exchange carriers will have only limited ability to provide and advance universal service, ultimately resulting in a "steady erosion of employment standards throughout the industry."[6]

Q. WILL THE MERGER AFFECT MANAGEMENT POSITIONS IN KENTUCKY?

A. The companies may eventually combine some management functions in Kentucky to the extent that they are redundant. However, because Bell Atlantic does not have an incumbent local exchange carrier subsidiary in Kentucky, such redundancies are not expected to be significant. The merger may lead to the elimination of centralized duplicative management positions over time. However, in keeping with both companies' practice of treating employees fairly and responsibly, the merged company will make every effort to handle any job loss by normal attrition, retirements and other voluntary measures. Moreover, as I stated above, it is anticipated that the merger will generate more job opportunities among both hourly and management employees by positioning the company to compete more effectively in the telecommunications marketplace.

[5] Id. at 4-5.
[6] Id. at 6.

Q. WILL THE MERGER HAVE ANY ADVERSE EFFECT ON GTE SOUTH'S COMMITMENT TO LOCAL COMMUNITIES?

A. Absolutely not. GTE South will continue to be closely involved in Kentucky communities. Aside from GTE South's continuing investment in and attention to its Kentucky infrastructure, GTE gave grants totaling $368,000 to more than 60 nonprofit and educational organizations throughout the state in 1998. United Way contributions in the form of voluntary employee payroll deductions amounted to more than $137,000 in 35 counties. Moreover, total employee and matching GTE South gifts to educational institutions amounted to almost $310,000. GTE South also contributed over $116,000 in the form of memberships to chambers of commerce and grants to economic development efforts across 24 counties in Kentucky.

GTE South also supports specific community initiatives and activities. GTE South invested almost $135,000 in this way by sponsoring the Bluegrass State Games, Greenup Old Fashioned Days, Casey County Newspapers in Education, the Calvert City Lions Club, the Great American Brass Band Festival, and the Mid-South Basketball Conference.

The merger will do nothing to diminish this commitment to the communities that GTE South serves. As Denise Bentley, Alderwoman of the City of Louisville, stated in her letter to the Commission in the prior merger case, "the individual companies are regarded as excellent Corporate Citizens."[7]

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[7] Letter from Ms. Denise Bentley, Alderwoman, City of Louisville, to Mr. Gary Gillis, Ky. P.S.C. (Apr. 8, 1999).

C. Kentucky Consumers Will Benefit From The Merger

Q. WHAT BENEFITS WILL KENTUCKY CONSUMERS RECEIVE AS A RESULT OF THE MERGER?

A. All of the commitments I have discussed above represent direct and tangible benefits to Kentucky consumers as a result of the merger.

Additionally, as Mr. Kissell explains, the merged company will enter the Louisville market to compete against BellSouth in the local exchange market within 18 months of the consummation of the merger. The merged company will also compete to provide other services in the Louisville market, such as long distance and data services. This entry into Louisville was a commitment made publicly by GTE's Chairman and CEO, Charles R. Lee, and Bell Atlantic's Chairman and CEO, Ivan Seidenberg, on September 15, 1998, before the U.S. Senate Subcommittee on Antitrust, Business Rights and Competition. The merged company's entry into Louisville will tangibly and significantly advance competition in Kentucky.

In anticipation of the merged company's entry into Louisville, Ms. Bentley's letter stated that "[t]he merger will obviously be good for consumers" and also that, in time, she was "convinced that the merged company will launch competitive forays elsewhere in the state." Ms. Bentley's letter reflects the general sentiment that consumers will benefit from increased competition, and the merger will directly result in such an increase.

Q. WHAT OTHER BENEFITS WILL KENTUCKY CONSUMERS RECEIVE AS A RESULT OF THE MERGER?

A. Consumers will benefit because the cost savings from economies of scale and efficiencies from an enlarged scope will create a stronger merged company that will provide consumers with the best value for their money. They will also benefit because the merger will enhance general competition – first in the large volume business/bundled services market but then spilling over to other markets -- resulting in the availability in the marketplace of more innovative products, higher quality service, more competitive prices and varieties of combinations for all types of service. Consumers will also benefit from the enhanced ability and incentive for the merged company to grow GTE's Internet backbone. Moreover, the stimulation of the regional economy caused as the merged company takes advantage of all of these benefits will be good for the entire Commonwealth.

Q. WHAT ABOUT GTE SOUTH'S CUSTOMERS WHO HAVE SIMPLE, FLAT-RATE TELEPHONE SERVICE? WILL THIS MERGER BENEFIT THEM?

A. Yes, it will. First, as the Commission is aware, there are many examples of how customers will benefit from the extension of CLASS services. The most obvious example is that Caller ID, selective trace and other CLASS features will allow consumers to identify and avoid repetitive solicitation calls, harassing calls, and other unwanted calls. Second, customers can expect savings on intraLATA toll calls when local calling plans are available in their area.

Third, on a more general level, GTE South's current customers for basic telephone services will experience benefits over the long-term because their telephone company is one of the premier telephone companies in the world. Its ability to deploy the services I have discussed, rapidly deploy new technologies, react quickly in the event of natural disasters, and provide prompt and efficient customer service will all be significantly enhanced by this merger.

Q. CAN YOU PROVIDE MORE DETAIL REGARDING BEST PRACTICES AND ECONOMIES OF SCALE?

A. Certainly. These are two significant benefits of the merger and I will discuss each in turn.

1. Service and Quality Improvements Through Best Practices

Q. DO YOU EXPECT KENTUCKY CUSTOMERS TO EXPERIENCE SERVICE AND QUALITY IMPROVEMENTS AFTER THE MERGER?

A. Yes, I do. The merger will result in service enhancements through the merged company's use of best practices.

Q. HOW WILL THE MERGER OF GTE AND BELL ATLANTIC FACILITATE THE ADOPTION OF BEST PRACTICES?

A. The merger will provide the opportunity for the close examination of two successful companies and for the identification of efficiencies that may be gained by adopting one company's process or practice for use in the operations of both companies. In a merger like this one, these efficiencies generally result in three types of opportunities: (1) elimination of redundant functions, (2) increased economies of scale, and (3) adoption of the most efficient business practices or processes followed by each company -- often referred to as best practices.

In a merger, the adoption of best practices can generate savings and improve customer service when one of the companies has superior existing practices for a particular function. Generally, each company will have certain best practices that are adopted by the other, permitting both companies to benefit from the process. The adoption of best practices could be expected to enhance service quality in several areas, such as processes and procedures associated with customer contact centers, wholesale customer ordering and provisioning, and network monitoring and provisioning.

Q. WHAT IS THE STATUS OF GTE AND BELL ATLANTIC'S REVIEW AND APPROVAL OF BEST PRACTICES THAT WILL EVOLVE FROM THE MERGER?

A. The approval of best practices will require a detailed review of the processes, systems, and policies employed by comparable functions within each organization. This review will take time to complete. As a result, specific details regarding the full implementation of best practices are still under investigation. The timing of when certain best practices will be implemented is also uncertain. Some best practices can be implemented soon after the consummation of the merger, while others will take longer. The timing of the implementation of best practices is controlled by factors such as the need to make changes to systems, personnel issues, training requirements, and resource prioritization.

Q. IS IT WELL ACCEPTED THAT A MERGER WILL BRING ADDED VALUE BECAUSE OF THE ADOPTION OF BEST PRACTICES?

A. Yes. It is an accepted benefit. In recent merger announcements, just about every major player in the telecommunications industry has pointed to the fact that the adoption of best practices will be a significant benefit of the merger. For example, MCI WorldCom has pointed to the adoption of "best practices" as leading to advancements in network security after its merger (Business Wire, Feb. 22, 1999). The mutual adoption of each company's best practices after this merger will lead to greater cost reductions and more rapid improvements in service quality than could be realized by each company on its own.

2. Economies of Scale and Increased Efficiency.

Q. HOW WILL THE MERGED COMPANY RECOGNIZE COST SAVINGS FROM ECONOMIES OF SCALE?

A. As I have noted above, after the completion of the merger, GTE South will be a subsidiary of one of the largest telecommunications companies in the country, with greater flexibility and access to financial resources. The combination of companies with complementary strengths, a shared vision of the future of telecommunications, and enhanced resources will allow the merged company the opportunity to provide new products and services to Kentuckians.

Q. WHAT KIND OF EFFICIENCIES WILL BE CREATED FOR KENTUCKY?

A. Efficiencies will be created by larger purchasing power, the minimization of duplicative test systems, consolidation of research and development and the ability to conduct other planning and back office operations for both companies.

Q. WHY IS INCREASED EFFICIENCY AN IMPORTANT REASON FOR THE MERGER?

A. Any company that strives to be a full service facilities-based telecommunications company must have a scale and scope comparable to its major competitors. The size of some of Bell Atlantic and GTE's primary competitors creates one of the more compelling reasons for the merger. Bell Atlantic and GTE must compete against formidable combinations such as:

- AT&T/McCaw/TCG/TCI/MediaOne/BT;
- MCI/WorldCom/MFS/UUNET; and
- Sprint/United/Centel/France Telecom/Deutsche Telecom.

Unless they can match or nearly match the cost, scope and marketing advantages of these global companies, both Bell Atlantic and GTE will be far less able to compete in tomorrow's telecommunications market. The merger will allow the merged company to compete effectively in the market for bundled services, enhancing competition, encouraging innovation by all players, increasing quality and decreasing costs.

Q. HOW WILL THE MERGER IMPROVE THE EFFICIENCY OF GTE SOUTH?

A. The merged company as a whole will be more efficient as a result of reducing overall expenses by eliminating duplicative systems and reducing overhead at the corporate headquarters level. The merged company will also be able to draw upon the expertise and abilities of personnel from both companies, and adopt the best practices of each to improve the quality and efficiency of service. These greater efficiencies will help contain cost pressures across the company, freeing resources to invest in new services, to enhance service quality, and to compete more effectively with an array of packaged services against the giant telecommunications alliances noted above which have recently formed in part to achieve such efficiencies.

Nor should these efficiencies be considered intangible. They are not, and will not be in Kentucky. As I have noted above, these efficiencies will translate into the ability to expand the reach of advanced services in Kentucky.

Q. **DO YOU HAVE ANYTHING TO SAY IN CONCLUSION?**

A. Yes. The question is not so much whether there will be benefits from the merger. My testimony and the other testimony submitted in this case shows that there clearly will be benefits. Rather, the Commission, in the end, must determine whether Kentucky customers will be better off without the merger. The answer to this question must be no, given that GTE South will maintain its current level of service, accelerate the deployment of new services, and also accelerate the pace of competition across the whole spectrum of telecommunications services by merging with Bell Atlantic.

Q. **DOES THIS COMPLETE YOUR TESTIMONY?**

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	)))))	CASE NO. 99-____

DIRECT TESTIMONY

OF

DENNIS M. BONE

ON BEHALF

OF

BELL ATLANTIC CORPORATION

SUBJECT: BELL ATLANTIC OVERVIEW

JULY 9, 1999

DIRECT TESTIMONY OF DENNIS M. BONE

I. Background And Purpose

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Dennis M. Bone. I am President and Chief Executive Officer of Bell Atlantic - West Virginia, Inc. ("BA-WV"), Bell Atlantic's operating telephone company subsidiary in West Virginia. My business address is Bell Atlantic - West Virginia, 1500 MacCorkle Avenue, Southeast, Charleston, West Virginia 25314.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.

A. I am a native of Dry Creek, West Virginia, graduating in 1973 from the West Virginia University Institute of Technology with a degree in mathematics. I went on to receive a Master's degree in Business Administration from Rutgers University and a Master's of Science degree in Counseling from The Johns Hopkins University. I have worked for what is now Bell Atlantic and its affiliates since 1979 (pre-divestiture) in a variety of different capacities of increasing responsibility. I started as an outside plant engineer, and subsequently worked in operations, competitive assessment, rate planning and regulatory matters. I was named President and CEO of Bell Atlantic-West Virginia in August, 1995. In my role as President and CEO, I am responsible for the overall performance of BA-WV. This includes financial performance, quality of service and state of the network within West Virginia.

In addition, I am currently Chairman of the Board of Directors of the West Virginia State Chamber of Commerce, serve as a member of the Governor's

Science and Technology Advisory Council, and am a trustee of the Charleston Area Medical Center. I also am a director of the executive committee of the West Virginia Roundtable, a group of business leaders who work to bring business to the State. I serve on the Board of Advisors of West Virginia University, am a trustee and serve on the executive committee of the University of Charleston, and serve on the board of the West Virginia Foundation for Independent Colleges.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide an overview of the operations of Bell Atlantic and, where appropriate, respond to questions raised by the Commission in its April 14, 1999 order dismissing the Joint Applicants' original merger application (the "April 14 Order"). As a result of my experience as president and CEO of neighboring West Virginia, which shares many of the demographic characteristics of Kentucky, I hope to provide particular insight and assurance to the Commission with respect to Bell Atlantic's commitment to service in less populous areas of its region.

II. Reasons For The Merger And The Merger's Structure

Q. FROM BELL ATLANTIC'S VIEWPOINT, WHAT ARE THE REASONS FOR MERGING WITH GTE?

A. We are merging with GTE because the merger will allow us to better meet customer needs, a critical element to our success as a competitor both today and increasingly in the future. The merger will allow us to do that by making us more efficient, expanding the skills, expertise and resources we can draw upon as a merged company, and enhancing our service capabilities and geographic reach. Mr. Griswold discusses these enhanced opportunities as they apply to both companies in detail in his testimony. In general, the merged company will be more efficient as a result of reducing overall expenses through such means as increasing purchasing power, eliminating duplicative systems, and reducing corporate overhead at the headquarters level. Mr. Shore's testimony provides a more specific breakdown, as the Commission requested, of the savings that we expect to flow to GTE's regulated Kentucky operations as a result of the merger. The merged company will also be able to draw upon the abilities and resources of both companies in order to better compete to meet customer needs in the future against other recently formed alliances, such as AT&T/TCG/TCI/Time Warner/Media One/British Telecom, WorldCom/MCI/MFS/UUNET, Sprint/United/France Telecom/ Deutsche Telekom, and SBC/Pactel/SNET/Ameritech.

Q. HOW WILL A LARGER COMPANY CREATE A MORE COMPETITIVE COMPANY?

A. Any company that strives to be a full-service facilities-based telecommunications company must have the scale and scope of its major competitors. The size of some of Bell Atlantic's and GTE's primary competitors creates one of the more compelling reasons for the merger. At the local level throughout our territories, Bell Atlantic and GTE already are competing against the growing empires and alliances of AT&T, MCI WorldCom and Sprint, which expand almost weekly. Moreover, each of these companies has prominently boasted of their own recent efforts to cut costs in order to better compete for customers. Both AT&T and MCI WorldCom have pointed to cost savings as a reason their own mergers and acquisitions have been valuable to them and to their customers. Their efforts are premised -- as in part our merger is with GTE -- on the simple proposition that companies with lower costs can do more for customers than companies with higher costs. Unless Bell Atlantic and GTE can match or nearly match the cost, scope and marketing advantages of these new combinations, neither of us will be able to compete as effectively in tomorrow's telecommunications market for customers.

In addition, I agree with Mr. Kissell's view that the merged company will be better able to serve the high-speed data transmission and Internet services market. The opportunity of accessing Bell Atlantic's customer base should allow GTE to greatly increase the volume of data and Internet traffic it carries, accelerating the build-out of GTE's national data network. Accordingly, the merger will allow more facilities-based competition sooner.

So, too, the merger will create more facilities-based competition in the long distance market. As Mr. Kissell explains, the opportunity to access and combine GTE's traffic with the traffic generated by Bell Atlantic's customers will enhance the merged company's ability to construct the long-distance facilities needed to compete with the three dominant providers. This is another reason why the merger will allow both Bell Atlantic and GTE to become better competitors than either could have been alone.

Q. WILL THE MERGER CHANGE THE WAY GTE SOUTH CONDUCTS ITS BUSINESS IN KENTUCKY?

A. No. Bell Atlantic, as explained in further detail below, has neither local exchange nor wireless operations in Kentucky, and its long distance operations through two subsidiaries are miniscule (about 100 customers on a resale basis only). Accordingly, we have informed public utility commissions in our own region that the merger will essentially be seamless from the perspective of the operating telephone companies. Even in the two states in which both GTE and Bell Atlantic subsidiaries are incumbent local exchange carriers today (Virginia and Pennsylvania), we have advised the Commissions that we plan post-merger to continue to operate as separate legal entities -- although we do plan to have only one management team for both entities.

Moreover, as we also have stressed to the commissions in our region and as Bell Atlantic's merger with NYNEX illustrates, the transaction will not diminish in any way the responsibilities the merged company owes to the states in which its respective operating companies operate, nor will it alter the commissions' regulatory authority to make sure we live up to those responsibilities.

Q. **SINCE BELL ATLANTIC IS THE ACQUIRING COMPANY IN THIS TRANSACTION, DOESN'T THAT MEAN THAT A NEW MANAGEMENT TEAM WILL ULTIMATELY BE "CALLING THE SHOTS" IN HOW GTE SOUTH'S OPERATIONS ARE CONDUCTED?**

A. Absolutely not. While the corporate structure of the transaction is one which will result in GTE being a subsidiary of Bell Atlantic, in every important and substantive way this truly is a "merger of equals." This is *not* a situation where Bell Atlantic is coming in to somehow "take over" the operations of GTE and its subsidiaries. Indeed, one of the reasons a merger with GTE made sense to Bell Atlantic is because we knew that GTE *already* is a well-managed, well-run corporation. Under these circumstances, sharing governance, not dictating it, is the most effective way to take advantage of the skills and experience of the entire management team.

These are more than words -- the "merger of equals" philosophy is directly reflected in the merger agreement's requirements for management and governance responsibilities, which are evenly divided between the corporations. For example, the Board of Directors of the merged company will consist of an equal number of Board members from GTE and Bell Atlantic who will be selected, to the extent possible, from the current directors of each corporation. Furthermore, Charles R. Lee, Chairman and Chief Executive Officer of GTE, and Ivan G. Seidenberg, Chairman and Chief Executive Officer of Bell Atlantic, will each serve as Co-Chief Executive Officer of the merged company. Additionally, Mr. Lee will be the Chairman of the merged company and Mr. Seidenberg will be the President of the merged company. After July 1, 2002, Mr. Seidenberg will become the sole Chief Executive Officer and continue as President, with Mr. Lee continuing as Chairman until July 1, 2004, when Mr. Seidenberg will assume that position.

III. The Merger Will Not Jeopardize In Any Way GTE South's Commitment To Serve Its Customers In Kentucky And Will Substantially Enhance Its Ability To Fulfill That Commitment

Q. SHOULD THE COMMISSION BE CONCERNED THAT THE MERGER WILL SOMEHOW DIMINISH GTE SOUTH'S COMMITMENT TO SERVE CUSTOMERS IN KENTUCKY?

A. No. To the contrary, as current President of Bell Atlantic's West Virginia operating telephone company, I can speak from extensive and recent experience of Bell Atlantic's deeply-rooted and continuing commitment to its in-state operations, especially including its less populous states that share many of the characteristics of Kentucky.

By way of introduction to Bell Atlantic, let me first provide some overall background on the company as a whole. Bell Atlantic is a diversified telecommunications company which began operations in 1984 when AT&T divested itself of its local telephone operations. In 1997, in another parent company merger similar to the one proposed here, Bell Atlantic merged with NYNEX Corporation, another Regional Bell Operating Company. In 1998, the combined Bell Atlantic/NYNEX (now just "Bell Atlantic") had annual operating revenues of $31.6 billion. It has a strong balance sheet and investment-grade credit rating.

Bell Atlantic is at the forefront of the communications and information industry. We have approximately 41.6 million domestic access lines and about 6.6 million domestic wireless customers. In addition, Bell Atlantic is a premier provider of advanced wireline voice and data services, a market leader in wireless services and the world's largest publisher of directory information. We also are one of the world's largest investors in high-growth global communications markets, with operations and investments in 23 countries.

Bell Atlantic's local operating telephone companies ("OTCs"), however, continue to form the core of its business. Our OTCs operate in thirteen states, from Virginia to Maine, and the District of Columbia, and include numerous substantially rural environments (including, of course, West Virginia, in addition to large portions of our serving areas in Virginia, Pennsylvania, Vermont, New

Hampshire and Maine, among others). Bell Atlantic clearly brings to the merger solid experience in the provision of telecommunications in a wide variety of rural and urban environments.

Another measure of our experience and commitment to local service is the fact that in all of our states (except Connecticut where we have less than 50,000 access lines), there is a state President and a team of personnel assigned to work in-state and with the state's commission and staff. This is because Bell Atlantic, like GTE, appreciates the importance of this local management presence. This not only ensures that high quality telecommunications services are provided, but also helps us remain an integral part of the local community.

Q. WHAT EVIDENCE IS THERE IN YOUR STATE OF WEST VIRGINIA, FOR EXAMPLE, THAT BELL ATLANTIC FULLY INVESTS IN AND SUPPORTS ITS LOCAL OPERATIONS?

A. Since 1988, we have invested more than $1 billion in capital in maintaining and upgrading our network in West Virginia, including spending about $134 million in 1998. This high level of investment has allowed us to expand the number of fiber route miles in the state from only 12,700 in 1988 to more than 144,000 in 1998 – more than an 11-fold increase. The entirety of our network is now connected to digital central offices – we were the first state in the Bell Atlantic region to complete that conversion (just as our Charleston, West Virginia central office was the nation's first to complete the cutover to equal access in 1984). Every one of our central offices today is able to offer an extensive array of custom calling services to customers ("CLASS" services), such as Caller ID, call waiting, and the like. As part of our effort to meet customer needs with respect to such services, not only do we make them available as "ala carte" items, but we also have two different plans -- the "SoundDeal" and the "Local Package" plan -- through which customers, *for one monthly flat rate*, can purchase both local calling and a package of these CLASS features. Under the "SoundDeal" plan, customers also can purchase unlimited intraLATA toll calling. This is an example of the creative and customer focused technical and marketing capability that, as a merged company, we hope to foster and refine throughout our territories.

Not only has West Virginia not been "left behind" in any sense with respect to deployment of new technology, investment or customer focus, West Virginia has, in many respects, been in a leadership role throughout Bell Atlantic, and have shared that progressive position in a variety of ways with the citizens of the State. For example, through our "World School" program we have invested more than $10 million in an initiative to provide all the public schools in West Virginia direct, high-speed internet access (56 kbps or higher). Bell Atlantic Pioneer volunteers have wired classrooms in nearly 150 schools statewide.

In 1990, BA-WV also began an "Office of the Future" program to help foster economic development throughout the state. This program has been carried out cooperatively with the State of West Virginia. Its purpose is to capitalize on our extensive digital network in the state, as well as West Virginia's under-utilized work force, to bring new teleservices industry programs to our state. This program has been a tremendous success: West Virginia is now home to an extensive call center industry, including more than 50 offices in 18 communities and employing more than 20,000 workers. These employees perform a broad range of functions for companies ranging from sales, to medical claims processing, to order processing for catalog centers, to credit management, to data processing for banks and the FBI. The best evidence of the success of this program is that in terms of employment, teleservices now *surpasses* the coal industry in West Virginia.

We are far from through with such endeavors, however. BA-WV currently is in the midst of its "West Virginia 2001" initiative through which it will invest $25 million to upgrade the capabilities -- and access to those capabilities -- of the technological infrastructure of West Virginia.

Q. CAN YOU DESCRIBE THE "WEST VIRGINIA 2001" INITIATIVE IN MORE DETAIL?

A. The West Virginia 2001 initiative is a public-private partnership that consists of the deployment by BA-WV of a statewide, high-speed communications network based on "ATM" (asynchronous transfer mode) technology. This technology will make possible cost effective network solutions for many of West Virginia's communications needs, including during Phase I:

- the "Courtroom of the Future," a nationally-unique program that uses high-quality video-conferencing to conduct remote arraignments, parole board hearings, witness appearances, lawyer consultations and, eventually, telemedicine and distance education; and

- the "Integrated Assessment System," a data network that will provide connectivity among all 55 counties and the State Tax Department for more effective management of property appraisals statewide.

As noted above, these are only Phase I projects. Innovative applications for higher education (such as distance learning) and health care (such as telemedicine initiatives) are already in use, while more are in various stages of planning for financing and development.

Q. IS THERE A SIMILAR COMMITMENT TO TECHNOLOGY THROUGHOUT BELL ATLANTIC?

A. Yes. Throughout our footprint, the Bell Atlantic network is among the strongest and most advanced in the nation. We have converted 100 percent of our central offices to equal access. At the start of the year, 92.5 percent of Bell Atlantic's access lines were connected to digital central offices. Approximately five million miles of fiber are in place throughout Bell Atlantic's network. Moreover, the network includes software-driven intelligent features, which have allowed Bell Atlantic to become an industry leader in deployment of custom calling services. We are also a national leader in the deployment of Integrated Services Digital Network ("ISDN") technology, with more than 500,000 lines in place. We also are an industry leader in the deployment in xDSL high speed services, and expect to have the service available to more than 8 million homes in our region by year's end.

Q. DOES WEST VIRGINIA'S SERVICE RECORD ALSO SUPPORT THE CONCLUSION THAT BELL ATLANTIC DEVOTES SUFFICIENT RESOURCES

TO THE PROVISION OF HIGH QUALITY SERVICE TO CUSTOMERS, EVEN IN RURAL STATES SUCH AS WEST VIRGINIA?

A. Absolutely. Generally, Bell Atlantic has long recognized that it will be able to survive and prosper in the increasingly competitive telecommunications market only if it provides high quality service. This is no less true in West Virginia than in the other parts of our territories that competitors have targeted more aggressively than they have West Virginia. In 1998, for example, we finished either first or second in consumer and small business repair and provisioning among all fourteen of Bell Atlantic's OTCs.

Region-wide, Bell Atlantic's customer satisfaction results also demonstrate our success in providing high quality service. For example, in 1998, 93 percent of responding customers (including business and residential customers) were satisfied with their telephone service from Bell Atlantic. As a company, however, we are not content to rest on past performance, and management compensation is directly linked to customer satisfaction throughout Bell Atlantic and its operating companies.

We also know that the continued provision of high quality service will be even *more* important, not less, in the future, given the fundamental changes taking place in network technology and customer expectations. As Mr. Griswold explains in more detail, we believe that joining forces with GTE will allow the two companies to share their best practices so that they will be better able to offer the high quality service that their customers demand. Furthermore, the merged company's substantially increased capital base for the merged company will provide it with greater strength and flexibility, making it better able to deploy promptly new and more efficient networks.

Finally, our recent experience in the NYNEX merger underscores that a merger of this sort will enhance, not diminish, our ability to serve customers. The Bell Atlantic/NYNEX merger has allowed the combined company to build on the service quality record and commitment to investment of both companies. In my state of West Virginia, for example, service quality has remained strong and steady following the merger with NYNEX, and the amount spent on in-state infrastructure has steadily *increased* post-merger in order to keep the state at the technological forefront of modern communications. Our state construction spending has grown from $88.3 million in 1996 to $107.2 million in 1997 to the aforementioned $134 million for 1998. Any fear that merging with a company that included the major metropolitan markets of New York and Boston (among others) would dilute our focus and commitment regarding investment in rural states such as West Virginia has proved to be utterly unfounded.

Q. **IS BELL ATLANTIC FINANCIALLY STRONG ENOUGH SO THAT COMBINING IT WITH GTE WILL NOT DILUTE GTE'S ABILITY TO MAKE APPROPRIATE INFRASTRUCTURE INVESTMENTS?**

A. Yes. As noted above, there can be no serious question that the combined company will be stronger and therefore more able to continue to make appropriate investments in infrastructure. The financial strength of Bell Atlantic today is underscored by the fact that the majority of debt within Bell Atlantic is held at the local operating company level, where the average credit rating is double A. Moreover, the merger is structured as a tax-free exchange of stock, and as such neither GTE nor Bell Atlantic will need to issue bonds or otherwise assume any new debt to finance the merger. In short, the merged company's debt rating and its ability to support appropriate investments in infrastructure, will remain very strong.

Q. HOW WILL THE MERGED COMPANY IMPLEMENT THE "BEST PRACTICES" OF BELL ATLANTIC AND GTE, AND CAN YOU PROVIDE EXAMPLES?

A. The experience of our merger with NYNEX is instructive. Let me mention a few examples of "best practices" we were able to implement as a result of that merger. Bell Atlantic adopted a NYNEX practice of having technicians call back customers to make sure that they were satisfied with the installation or repair work done by the technician, while NYNEX benefited from Bell Atlantic's experience with implementing advanced intelligent network functions to provide such services as remote call forwarding, third-party billing, calling card verification, and 800 database queries. Another example is the fact that, following the merger with NYNEX, both companies had a larger pool of field personnel to draw upon and deploy where needed during the ice storms which virtually paralyzed much of New England in the winter of 1997/98. It is simply axiomatic that a larger corporation will be able to benefit from the greater resources and abilities of a broader pool of employees and facilities. The goal of the merged company is to quickly identify these types of tangible benefits to improve service for the merged company's current customers and better enable the merged company to reach new customers.

Q. WILL THE MERGER HAVE ANY ANTI-COMPETITIVE EFFECT BY ELIMINATING BELL ATLANTIC AS A POTENTIAL COMPETITOR TO GTE SOUTH IN ITS LOCAL EXCHANGE TERRITORY?

A. No. Bell Atlantic had no plans to compete in the local exchange markets anywhere in Kentucky -- let alone in the markets served today by GTE -- and, apart from its merger with GTE, has no future plans to do so. Bell Atlantic has never filed a tariff to provide local exchange service in Kentucky and has not entered into a single interconnection agreement to do so in Kentucky. Indeed, the same is true for every one of the states in the region served by Bell South and, to the north, Ameritech. In addition, Bell Atlantic's long distance affiliates serve only about 100 lines in Kentucky, thus giving Bell Atlantic no advantage in offering local service to a large number of long distance competitors. Bell Atlantic cannot reasonably be viewed, therefore, as either an actual or potential competitor in Kentucky to GTE. The "market power" of GTE South thus will remain unchanged in its service territories by the merger, as Dr. Taylor discusses in greater detail in his testimony.

Rather than an adverse effect, and as Mr. Kissell explains in more detail, one rapid positive competitive effect of the merger will be the entry by the combined company in the local exchange market in Louisville within 18 months of the merger's close. In the long-term, the larger capital base provided by the merger and the use of the best practices of each company will accelerate competitive entry and make it more likely that a competitive service can be offered. The same reasoning applies to entry into new lines of business: by using GTE's operations as a base, the merged company will be a potent competitor with the ability to accelerate deployment of advanced services.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	)))))))	CASE NO. 99-____

DIRECT TESTIMONY

OF

MICHAEL W. REED

ON BEHALF

OF

GTE CORPORATION

SUBJECT: GTE SOUTH -- KENTUCKY OPERATIONS

JULY 9, 1999

DIRECT TESTIMONY OF MICHAEL W. REED

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael W. Reed and my business address is 318 E. Main Street, Lexington, Kentucky 40507.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the General Manager – Customer Operations for the Kentucky Division of GTE South Incorporated ("GTE South"), a telecommunications carrier currently certificated to provide local exchange service within the Commonwealth.

Q. PLEASE DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.

A. I hold a Bachelor of Science degree from Indiana University's School of Business, majoring in Public Utility Management. I also hold a Master of Arts Degree from Ball State University's Graduate School of Business, majoring in Finance. I began my career in telecommunications twenty-six years ago as a management trainee for GTE in Indiana. I have held various positions including Financial Planning Manager, State Director of Operations, Service Director, Director – Service Center Support, Group Manager – Remote Operations Support and other Operations positions before being named to my current position in March, 1999.

Q. PLEASE EXPLAIN THE RESPONSIBILITIES OF YOUR POSITION.

A. I am responsible for the administration of the Company's service, expense and some capital programs in Kentucky. I exercise this responsibility to ensure GTE South's customer service requirements in Kentucky are met as promptly and efficiently as possible. I am required to continually assess GTE South's quality and performance in the provision of telecommunications service. In doing so, I must recognize current and future demands for service and ensure that programs are developed and implemented to meet these demands under constantly changing economic, regulatory, legislative, market and technological conditions.

Q. **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A. My testimony addresses issue number 2 of the Commission's April 14, 1999, order in Case No. 98-519, which states: "Joint Applicants must specify the mechanisms and safeguards which they will employ to ensure that service quality does not erode in Kentucky. The specifications must include GTE's plan to continue addressing problem areas identified in the management audit . . . ." To address this concern, my testimony shows that the merger of GTE and Bell Atlantic will not impair or jeopardize GTE South's provision of adequate service to the public at just and reasonable rates in Kentucky. My testimony also details the benefits to GTE South's customers as a result of the merger, including enhanced service quality and potential expansion of local calling scopes. I will also explain GTE South's commitments regarding capital expenditures for the three years following the closing of merger.

Q. IS GTE SOUTH CURRENTLY UNDERTAKING ANY MAJOR CAPITAL PROJECTS TO ENSURE THAT GTE SOUTH WILL CONTINUE TO ADDRESS PROBLEM AREAS IDENTIFIED IN ITS MANAGEMENT AUDIT?

A. Yes. GTE South's 1999 capital program contains significant expenditures to ensure that GTE South's Kentucky operations will have adequate resources to continue to address the issues raised in the management audit. Some of the major projects for 1999 include, but are not limited to, approximately $6.1 million in capital projects for the replacement and upgrade of networks serving three communities in Kentucky. In Smiths Grove, GTE has budgeted $2 million to replace the existing DMS 10 switch with a new DMS 100. The conversion of Smiths Grove also includes the change-out or upgrade of 10 of the switch's surrounding remote switches. The new switch also positions the complex for growth sure to follow over the coming years. Additionally, GTE is placing two Synchronous Optical Network ("SONET") fiber optic rings in Smiths Grove, which replace an array of older point-to-point fiber facilities.

In Greenup, $1.3 million in expenditures are planned to upgrade the DMS 10 base unit to a DMS 100. In addition to the Greenup central office switch, 5 of its surrounding remotes are being upgraded as well.

Nearly $2.8 million dollars will be expended in the London area to upgrade its switching complex from Series I to Series II release peripherals. Earlier releases of some digital switching equipment did not allow for some of the features now available with newer releases. Such is the case of the Series I to Series II upgrade. This upgrade will allow additional Customized Local Area Signaling Services ("CLASS") to be offered in London and the surrounding areas. In conjunction with the London central office, 8 remotes will be changed out or upgraded as well.

Q. OTHER THAN DIGITAL SWITCH REPLACEMENTS, WHAT OTHER CAPITAL PROJECTS ARE UNDERWAY IN 1999?

A. GTE is spending $6.5 million to install approximately thirty new pair gain devices in remote switches in Kentucky, including sixteen in the East District and five in the West District. Approximately 87 miles of new fiber optic cable will be placed at a cost of $1.7 million, nearly half of which will be located in the East District.

Q. PLEASE DESCRIBE ANY OTHER ACTIVITIES IN KENTUCKY RELATIVE TO GTE SOUTH'S CAPITAL PROGRAM.

A. Other major activities in the state include the rollout of Flexgrow in the 3rd quarter of 1999. Flexgrow is an offering that provides digital channel service with a provision for frame relay services included. On May 15, 1999, GTE began offering CLASS service to customers in the Berea serving area. GTE offices in Kentucky are 100% digital and over 95% of all facilities are connected via fiber optic routes. GTE is also a major partner in the Kentucky Information Highway ("KYIH") and offers Frame Relay and Asynchronous Transfer Mode ("ATM") services to state and local agencies covered by the Information Highway "cloud."

Interoffice fiber systems are constantly being enlarged due to network growth and all new systems being placed are SONET. SONET enables different manufacturers' equipment to work together and also enables remote provisioning of circuits and enhanced alarm monitoring. When possible, most new facilities are established as rings, which provide an increased level of protection against cable cuts.

Q. HAVE THE COMPANY'S CAPITAL AND FACILITY MAINTENANCE PROGRAMS ALLOWED GTE SOUTH TO MAINTAIN ITS QUALITY OF SERVICE?

A. Yes, GTE South consistently meets or exceeds all quality of service standards set forth by the Commission. National programs are ongoing to provide connections that will allow network alarm monitoring 24 hours a day, 7 days a week.

Q. WILL THE MERGER IMPAIR OR JEOPARDIZE GTE SOUTH'S ABILITY TO OFFER ADEQUATE SERVICE TO ITS CUSTOMERS?

A. No, there will be no adverse effect on the quality of service provided to local exchange customers served by GTE South. Overall, an excellent quality of telecommunications service is being provided to customers. This is supported by the fact that GTE South is meeting or exceeding all service standards of the Commission, as reported to the Commission on a statewide basis. For example, GTE South Kentucky Trouble Reports per 100 Lines have not exceeded 3.0 throughout 1998 or to date in 1999, well below the PSC objective of 8.0. Trouble Clearing Within 24 Hours results have averaged well above 90% in 1998 and 1999, and exceeded 95% over the last nine months through April 1999. The Commission's objective is 85%. The Average Repair Answer Time has not exceeded 13.0 seconds in any month in 1998 or 1999. The Commission standard is 20 seconds. Regular Service Installations within Five Days have exceeded 92% in every month in both 1998 and 1999, exceeding 96% in the first four months of 1999. The Commission objective is 90%. Additionally, the company has various measures and objectives for operational control and continually monitors the service that customers receive to ensure service is maintained at or above acceptable levels. These operations management processes will be in place when the merger is consummated and will maintain GTE South's high quality of service to Kentucky customers.

Q. **WILL CUSTOMERS RECEIVE ANY DIFFERENT SERVICE BECAUSE OF THE MERGER?**

A. No. Nothing will change in terms of how we serve our customers. The parent companies' merger will not entail any change in the rates, terms or conditions for the provisioning of any telecommunications services in Kentucky. Such changes, if any, would be made at a later date and subject to such regulatory approval as may be required.

GTE South will continue to:

- maintain its current service offerings for its business and residential customers under the same rates, terms and conditions;
- meet or exceed the Commission's service standards; and
- maintain its trouble response and preventive maintenance programs.

Q. WILL GTE SOUTH PROVIDE SERVICES AT JUST AND REASONABLE RATES AFTER THE MERGER?

A. Yes. GTE South's rates, as previously approved by this Commission, will not change as a result of the parent company merger.

Q. WILL THE MERGER PRODUCE BENEFITS TO GTE SOUTH'S CUSTOMERS THAT WILL EITHER MAINTAIN OR ENHANCE SERVICE OR SERVICE QUALITY?

A. Yes. Not only will the merger of the parent companies not impair or jeopardize adequate service at just and reasonable rates, but it will also bring many benefits to customers in Kentucky which will maintain or enhance service and/or service quality. Some of these benefits include:

1) accelerated deployment of CLASS services;

2) future capital spending commitment;

3) future expansion of local calling areas; and

4) implementation of best practices.

These and other benefits of the merger to GTE's Kentucky customers are described in more detail by Messrs. Griswold and Bone.

Q. PLEASE EXPLAIN HOW ACCELERATED DEPLOYMENT OF CLASS WILL ENHANCE SERVICE OR SERVICE QUALITY.

A. CLASS is a family of incoming and outgoing call management services based on the local common channel signaling "SS7" network which affords the user greater control over incoming and outgoing communications. For example, Calling Number ID and Caller ID (Name and Number) allow users to view a caller's number (name and number in the case of Caller ID) before, during and after a call, to screen incoming calls and to avoid receipt of unwanted calls. Automatic Busy Redial permits the customer to redial automatically the last number dialed, through a queuing process which alerts the customer when both lines are idle. The customer is thereby saved the trouble of repeated dialing attempts. Anonymous Call Block allows a called party who subscribes to CNID to automatically reject calls from parties that have marked their calls "private". When Anonymous Call Block is activated, the called party receives no ringing for the incoming call that is being rejected, and the incoming call is routed to a denial announcement and subsequently terminated. The called party must then redial without reactivating the Cancel Calling Number Delivery feature. These are just a few examples of the CLASS offerings which will be available in all of GTE's service territory if the merger is approved.

Q. ARE THE JOINT APPLICANTS WILLING TO MAKE ANY COMMITMENTS ON FUTURE CAPITAL EXPENDITURES TO ENSURE THAT CUSTOMER SERVICE IN KENTUCKY WILL BE MAINTAINED OR ENHANCED?

A. Yes. Contingent on merger approval, GTE South will commit to spending not less than $222 million in infrastructure capital investment in Kentucky over the three years following merger closure, subject to revision only in the event of a change in economic conditions outside of the merged company's control. This commitment will ensure that GTE South's Kentucky operation will receive adequate resources to maintain its service quality, ensure infrastructure needs are met and assure the Commission that Kentucky will continue to be an important market post-merger. While GTE will commit to this level of capital expenditure to ensure its customers receive sufficient service, the Commission supervises GTE South's service quality through its service standards rules and has the authority to monitor GTE South's service levels to ensure all requirements are being met. If the Commission should identify any areas of concern in the future, GTE South will work with the Commission to resolve these concerns. Moreover, this commitment is, of course, a minimum and may be adjusted upward based on growth and product rollout.

Q. ARE THE JOINT APPLICANTS WILLING TO MAKE OTHER COMMITMENTS THAT WOULD ENHANCE OR MAINTAIN SERVICE OR SERVICE QUALITY?

A. Yes. GTE South already has plans to make a tariff filing with the Commission implementing Local Calling Plans ("LCPs") in six additional exchanges in

Kentucky. Those exchanges are Bee Spring, Mammoth Cave, Park City, Sharpsburg, Owingsville and Smiths Grove. These LCPs are expected to be operational by year-end 1999, pending PSC approval. If the merger is approved, the Joint Applicants will commit to a rollout of enhanced Local Calling Plans to all of its Kentucky customers, possibly including a LATA-wide calling option, pursuant to tariff filings to be made in 2000 or 2001.

Q. HOW WOULD THESE EXPANDED LOCAL CALLING PLANS ENHANCE OR MAINTAIN THE QUALITY OF SERVICE KENTUCKY RATEPAYERS RECEIVE?

A. Ratepayers in Kentucky would benefit from expanded local calling plans by having the option to choose from restructured and simplified calling plans. Not only would the calling plans be easier for the customer to understand, they would also reduce the amount of toll charges that customers are currently paying to call adjacent or nearby exchanges.

Q. DOES BELL ATLANTIC HAVE ANY LOCAL EXCHANGE OPERATING COMPANIES IN KENTUCKY AND, IF SO, HOW WILL THEY BE IMPACTED BY THE MERGER?

A. No. Since Bell Atlantic does not have a local operating company in Kentucky there will be no merging of operations within the state between the two entities.

Therefore, no changes will result in the current Kentucky operations. Mr. Blanchard explains this in greater detail in his testimony.

Q. **WILL THERE BE ANY DETRIMENTAL EFFECT ON THE RATEPAYERS OF GTE SOUTH IN KENTUCKY?**

A. No. The ratepayers of GTE South in Kentucky would in no way be detrimentally affected. This parent company merger will be transparent to them. In the long run, it will be beneficial to them as efficiencies can be realized, more services are offered more quickly, and more choice for bundled services will be available to Kentucky consumers.

Q. **WILL YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

A. The Joint Applicants propose a transaction that will result in GTE becoming a wholly-owned subsidiary of Bell Atlantic. The proposed merger will result in more efficient corporate operations reflecting the best practices of both companies, creating a more competitive merged entity, which benefits GTE's business and residence customers in Kentucky. The parent companies' merger will not result in any adverse changes in our high quality of service or in the rates, terms or conditions of GTE or its operations. GTE believes that this merger is in the interest of the communities GTE serves and the citizens of Kentucky in general.

Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of: JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	))))))))	CASE NO. 99-_______

DIRECT TESTIMONY

OF

JOHN BLANCHARD

ON BEHALF

OF

GTE CORPORATION

SUBJECT: REGULATORY AND COMPETITIVE ASPECTS OF THE MERGER

JULY 9, 1999

DIRECT TESTIMONY OF JOHN BLANCHARD

I. Background And Purpose

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John Blanchard, and my business address is 201 North Franklin Street, Tampa, Florida 33601.

Q. BY WHOM ARE YOU EMPLOYED, AND IN WHAT CAPACITY?

A. I am employed by GTE Service Corporation ("GTE") as Vice President - Regulatory & Governmental Affairs - East.

Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT POSITION?

A. I am responsible for all external relations with regulatory agencies, governmental bodies, and other telecommunications industry participants in GTE's eastern states, including Kentucky.

Q. PLEASE DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.

A. I graduated from Brigham Young University with a Bachelor of Science Degree in Accounting in 1968 and received a Master of Accountancy Degree from the same institution in 1973. I am a Certified Management Accountant and Certified Internal Auditor. Upon completion of my undergraduate degree, I entered the United States Air Force, serving in various financial positions including Base Accounting and Finance Officer.

Upon completion of my graduate degree, I joined GTE's Financial Executive Development Program with assignments in Budget, Cost Accounting and Internal Audit. From 1975 through 1983, I held various accounting and internal auditing positions at General Telephone of Indiana, General Telephone of Kentucky, and General Telephone of the Southeast. In August, 1983, I was appointed the Director of Internal Auditing for GTE Telephone Operations, and in September 1984, I became the Director of Financial Accounting, Planning and Standards for Telephone Operations at GTE Service Corporation. In the latter position, I was responsible for the implementation of both the Federal Communications Commission ("FCC") Part 32, Uniform System of Accounts, and Part 64, Joint and Common Costs for Regulated Services and Deregulated Activities.

In October, 1988, I was named the Director-Cost Accounting for GTE Telephone Operations. In July, 1990, I became Director-Regulatory Accounting for Telephone Operations, with responsibility for the preparation of all accounting information associated with rate case filings, tariff filings, and regulatory reporting as required by regulatory agencies in GTE's West and Central Area Operations. In February, 1994, I was named Director - Regulatory Planning and Management-East. In that position I was responsible for the preparation and filing of rate cases and alternative regulation cases, the coordination of management audits, and the management of any other regulatory proceedings that affected the revenues and earnings of the GTE Telephone Operations subsidiaries in nine states. In June, 1997, I was named to my current position.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address several regulatory and competitive issues related to the Joint Applicants' application for merger approval. First, I explain that GTE South Incorporated ("GTE South") in Kentucky will not merge with any local exchange operating company of Bell Atlantic. Second, I address the fact that the merger will have no impact on GTE South's relationship with the Commission, or in any way diminish the Commission's regulatory authority. Third, I explain that the merger will have no impact on the provision of interLATA or cellular services in Kentucky. Fourth, I explain that changes in the level of competition will not have an impact on GTE South's ability to provide reasonable service at fair, just and reasonable rates. Fifth, I explain that a rate decrease is not necessarily because of the merger, and that net merger savings attributable to the Kentucky intrastate regulated operations of GTE South can be treated within the existing rate-of-return regulation applicable to GTE South, once they are actually realized.

II. <u>GTE South Will Not Merge Into Any Bell Atlantic Operating Company In Kentucky</u>

Q. HAVE THE JOINT APPLICANTS PROVIDED THE COMMISSION WITH SPECIFIC DETAILS OF THE STRUCTURE OF THE MERGER?

A. Yes. The Joint Applicants have provided a detailed summary of the mechanics of the merger in the Joint Application and the Joint Proxy Statement, which is attached to the Joint Application as Exhibit 9. Mr. Griswold also discusses the structure of the merger in his testimony. If the Commission requires any further detail, the Joint Applicants will be happy to provide it promptly upon request.

Q. WILL GTE SOUTH CONTINUE TO OPERATE AS A SEPARATE OPERATING COMPANY AFTER THE MERGER?

A. Yes, GTE South will continue to function as a separate legal entity in Kentucky. Because Bell Atlantic does not provide local exchange service within Kentucky, there is no need to consolidate GTE South's operations with those of any Bell Atlantic affiliate. GTE South will continue to provide service under the rates, terms and conditions of the tariffs it currently has on file with this Commission and will continue to be governed by the regulations that this Commission has established for GTE South's operations based on its individual circumstances.

There are only two states where GTE and Bell Atlantic both provide local exchange service: Pennsylvania and Virginia. However, as GTE and Bell Atlantic have informed the Virginia and Pennsylvania Commissions, their respective operating companies in these states will continue to operate as separate legal entities for the foreseeable future, with their own sets of tariffs, regulatory plans, and outstanding debentures.

Q. WILL THERE BE ANY CONSOLIDATION OF EMPLOYEE OR MANAGEMENT POSITIONS?

A. As Mr. Griswold explains in greater detail in his testimony, the merger will not have a material impact on the employment levels of GTE South's hourly employees, and GTE South will continue to honor all existing union contracts. This is particularly the case in Kentucky, where, as I mention above, Bell Atlantic does not have a local exchange operating company. Indeed, as Mr. Griswold explains, it is reasonable to expect that the merger will create jobs.

At the management level, the joint applicants expect to consolidate executive level management and redundant management positions in staff organizations (such as those involved with external matters and legal advice and assistance). This consolidation is expected to be accomplished, to the extent possible, by attrition, retirements, and other voluntary measures, and is expected to take the same period of time Messrs. Shuell and Shore calculate for the realization of merger benefits (*i.e.*, three years).

Q. WILL THERE BE ANY IMPACT ON RATES FOR SERVICES IN KENTUCKY AS A RESULT OF THE MERGER?

A. No. The contemplated merger is only a merger of the parent companies, and not of their respective operating companies. Rates and services in Kentucky will continue to be the same after the merger as they were before the merger and the merger will essentially be transparent to Kentucky consumers.

Q. CAN YOU DESCRIBE HOW THE MERGER WILL IMPACT THE INDEPENDENT OPERATION OF GTE AND BELL ATLANTIC'S AFFILIATES THAT PROVIDE LONG DISTANCE SERVICE IN KENTUCKY?

A. Yes. As the Joint Application notes, GTE Communications Corporation ("GTECC") (formerly known as GTE Card Services, Inc., d/b/a GTE Long Distance) is authorized to provide service in Kentucky both as a switchless reseller and as a facilities based carrier. Two Bell Atlantic subsidiaries, Bell Atlantic Communications, Inc. ("BACI") and NYNEX Long Distance Company ("NLD"), d/b/a Bell Atlantic Long Distance, are also certificated as switchless resellers of long distance telecommunications services in Kentucky. As I describe below, *see* Section IV, *infra*, the merger will have no regulatory impact on the ability of these affiliates to continue to provide long distance service in Kentucky. Moreover, just as the merger does not entail consolidation of GTE South with any other merged company affiliate after the merger, there will be no consolidation of GTECC, BACI and NLD. All of these companies will continue to provide the same services that they provide today under their present authorizations from this Commission. At some point, the merged company may decide to consolidate Bell Atlantic's long distance operations into GTECC or consolidate all of its long distance operations into a new subsidiary. Any such consolidation would only take place in accordance with applicable Commission requirements and with full notification to all Kentucky long distance customers.

III. The Merger Will Have No Negative Regulatory Impact

Q. HOW WILL THE MERGER CHANGE GTE SOUTH'S RELATIONSHIP WITH THE COMMISSION?

A. As Mr. Griswold explains in his testimony, the merger is a parent company merger only. Thus, the merger will not change GTE South's relationship with the Commission or diminish this Commission's regulatory authority in any way. Nothing in the proposed merger changes the ongoing obligation of GTE South to provide quality service in Kentucky at just and reasonable rates, and to report regularly to the Commission as required. Accordingly, GTE South will continue to make regular reports to the Commission regarding its financial results, quality of service, and so on.

Q. WHAT ACCOUNTING POLICIES, PROCEDURES AND SYSTEM OF ACCOUNTS WILL GTE SOUTH USE FOR ITS KENTUCKY INTRASTATE OPERATIONS IN THE FUTURE?

A. GTE South will continue to use FCC Part 32 Uniform System of Accounts procedures.

Q. WILL THE MERGER AFFECT THE COMMISSION'S ACCESS TO THE BOOKS AND RECORDS OF GTE SOUTH?

A. No. The books and records of the company will remain fully available to the Commission.

Q. MR. GRISWOLD STATED THAT THE MERGER WOULD ONLY OCCUR ONCE ALL REGULATORY APPROVALS HAVE BEEN OBTAINED. WHAT OTHER REGULATORY APPROVALS ARE NEEDED FOR THE MERGER TO TAKE PLACE?

A. In addition to this Commission's review of the merger pursuant to Kentucky law, the merger is undergoing thorough scrutiny by the Federal Communications Commission. The Antitrust Division of the U.S. Department of Justice has already concluded its thorough review of the merger. It determined that, with the divestiture of overlapping wireless properties, the merger does not violate federal antitrust laws. Dr. Taylor discusses this determination in his testimony. In addition to this Commission, the public utility commissions of several states in which GTE and/or Bell Atlantic operate through their respective subsidiaries must approve the merger. As of today, 28 states have either approved or explicitly declined to review the merger.

IV. The Merger Will Have No Impact On InterLATA Services Provided In Kentucky

Q. WILL THE MERGER HAVE ANY IMPACT ON INTERLATA SERVICES IN KENTUCKY?

A. No. As the Commission is aware, Bell Operating Companies such as Bell Atlantic are prohibited from originating interLATA services in-region until they meet the requirements set forth in § 271 of the Telecommunications Act of 1996 (the "1996 Act"). Under the 1996 Act, the term "in-region" only applies to those states in which a particular Regional Bell Operating Company was authorized to provide wireline telephone exchange service as of the day before the 1996 Act became law. Accordingly, the obligation to meet the requirements set forth in § 271 only applies to such states. Thus, when it approved SBC's acquisition of Southern New England Telephone on October 15, 1998, the Federal Communications Commission expressly found that Section 271 would not apply to SBC in Connecticut post-acquisition because Connecticut was not "in-region" for SBC at the time the 1996 Act was enacted.[1]

Since Bell Atlantic was not authorized to provide wireline local telephone exchange service in Kentucky in February, 1996, the requirements of Section 271 do not apply to Bell Atlantic in Kentucky. Indeed, the reason Bell Atlantic is able to offer interLATA service in Kentucky today is because Kentucky does not meet the definition of an "in-region" state for Bell Atlantic. This definition will not change following the merger.

[1] *Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations From: Southern New England Telecommuns. Corp., Transferor, to SBC Communs., Inc., Transferee*, 13 FCC Rcd 21,292 (1998), ¶¶ 35-36.

Q. HOW, THEN, WILL THE MERGER IMPACT INTERLATA LOCAL CALLING ROUTES CURRENTLY PROVIDED BY GTE SOUTH TO ITS KENTUCKY CUSTOMERS?

A. The merger will have no impact on the 47 interLATA local calling routes currently provided by GTE South in Kentucky.

Q. WHAT IMPACT WILL THE MERGER HAVE ON INTERLATA INTEREXCHANGE SERVICE OFFERED BY GTE AFFILIATES TO KENTUCKY CUSTOMERS?

A. As I discussed above, GTECC, BACI and NLD all provide interLATA interexchange services in Kentucky. For the same reasons I discussed above, the merger will have no impact on the ability of any of these affiliates, or of any affiliates of the merged company, to provide interLATA interexchange service in Kentucky.

Q. WHAT IMPACT WILL THE MERGER HAVE ON CUSTOMERS OF CELLULAR SERVICES PROVIDED BY GTE AND BELL ATLANTIC'S AFFILIATES?

A. None at all. Bell Atlantic does not provide cellular service in Kentucky. As for customers of GTE affiliates, they will continue to receive the same service under the same terms and conditions after the merger that they received before the merger. Furthermore, Dr. Taylor explains in his testimony that the Department of Justice ("DOJ") has determined that the merger will not violate federal antitrust laws, provided that the parties divest certain overlapping wireless properties. As Exhibits 10, 11 and 12 attached to the Joint Application show, none of these properties are in Kentucky and as such the divestiture will have no impact on

Kentucky customers.

V. Changes In The Level Of Competition Will Have No Negative Impact On GTE South's Ability To Provide Service

Q. WILL CHANGES IN THE LEVEL OF COMPETITION IMPACT GTE'S ABILITY TO PROVIDE REASONABLE SERVICE AT FAIR, JUST, AND REASONABLE RATES?

A. No. The Joint Applicants expect that as competition increases, GTE South will have a strong incentive to provide more competitive services and will act accordingly. Thus, competition will only improve the quality of GTE South's services. Certainly, it cannot be reasonably argued that the merger will somehow allow GTE to implement anticompetitive or unfair rates, terms and conditions. Again, this merger will in no way diminish the regulatory authority of the Commission. GTE South will continue to be regulated as a rate-of-return local exchange carrier, subject to the market opening requirements of the 1996 Act and the interconnection agreements to which it is already a party. Any change in the rates, terms and conditions of GTE South's service after the merger would, of course, be subject to tariff approval and other requirements of this Commission.

VI. GTE South's Status As A Rate-Of-Return Regulated Carrier Ensures That Synergies Will Result In Tangible Benefits To Kentucky Consumers

Q. HOW DOES GTE PROPOSE TO ADDRESS MERGER SAVINGS IN KENTUCKY?

A. In their testimony, Messrs. Shuell and Shore estimate that, after three years following consummation of the merger, approximately $7.2 million of net merger savings will be attributable annually to GTE South's intrastate, regulated local exchange operations. Mr. Griswold describes how the merger will place GTE South in a better position to offer advanced services to a broader section of Kentucky customers than currently receive such services today. Therefore, synergies from the merger will result in tangible benefits to Kentucky consumers.

Q. WOULDN'T IT BE APPROPRIATE FOR THE COMMISSION TO RETURN ALLOCABLE SAVINGS TO KENTUCKY CONSUMERS IN THE FORM OF A RATE DECREASE?

A. No, it would not. The Joint Applicants have made a commitment, as Messrs. Griswold and Reed explain, to make considerable capital expenditures over four years to extend CLASS services to all of GTE South's Kentucky exchanges. A significant proportion of these capital expenditures will be made *before* any merger savings are estimated to be allocable to Kentucky. Moreover, although the savings discussed by Messrs. Shuell and Shore are reasonable estimates of synergies and how they will be allocated to Kentucky, it bears repeating that they are *estimates* and not the actual results of operations that could properly used as a basis for changing current rates. Changing rates as a result of this single cost savings factor would effectively ignore the expenditure necessary for CLASS services, as well as all the other factors that, as this Commission is aware, must figure into GTE South's rate-of-return.

Therefore, changes to rates are neither appropriate nor, in view of GTE's commitments, necessary. At any rate, net savings will be reflected in the financial reports GTE South is required to submit to the Commission, at such time as they are actually realized over time. Since this Commission will continue to review GTE South's rates and actual costs of operation, it will have the same ability after cost savings are realized to determine whether GTE South's Kentucky earnings are excessive and to take whatever actions it deems necessary.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:	)	
	)	
JOINT APPLICATION OF BELL	)	
ATLANTIC CORPORATION AND GTE	)	CASE NO. 99-____
CORPORATION FOR ORDER	)	
AUTHORIZING TRANSFER OF	)	
UTILITY CONTROL	)	

DIRECT TESTIMONY

OF

WILLIAM E. TAYLOR

ON BEHALF

OF

GTE CORPORATION
AND BELL ATLANTIC CORPORATION

SUBJECT: EFFECTS OF THE MERGER ON COMPETITION

JULY 9, 1999

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DIRECT TESTIMONY OF WILLIAM E. TAYLOR

I. Introduction And Summary

Q. WHAT IS YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION?

A. My name is William E. Taylor. I am Senior Vice President at National Economic Research Associates, Inc. (NERA), head of its telecommunications practice and of its Cambridge office, located at One Main Street, Cambridge, Massachusetts 02142.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL QUALIFICATIONS.

A. I have been an economist for over twenty-five years. I received a B.A. degree in economics (Magna Cum Laude) from Harvard College in 1968, a master's degree in statistics from the University of California at Berkeley in 1970, and a Ph.D. in Economics from Berkeley in 1974, specializing in industrial organization and econometrics. I have taught and published research in the areas of microeconomics, theoretical and applied econometrics, and telecommunications policy at academic institutions (including the economics departments of Cornell University, the Catholic University of Louvain in Belgium, and the Massachusetts Institute of Technology) and at research organizations in the telecommunications industry (including Bell Laboratories and Bell Communications Research, Inc.). I have participated in telecommunications regulatory proceedings before state public service commissions, the Canadian Radio-Television and Telecommunications Commission, the Federal Communications Commission and state and federal legislative bodies on numerous topics in telecommunications economics including public interest assessments of mergers of major local, long distance and cable suppliers. I have testified previously before the Kentucky Public Service Commission ("Commission") on price cap regulation and on public interest concerns regarding BellSouth Long Distance's provision of interLATA services. A copy of my vita listing publications and testimonies is attached as Exhibit WET-1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In response to the Commission's April 14th Order,[1] Bell Atlantic Corporation ("BA") and GTE Corporation ("GTE") have asked me to comment as an economist on the effect of the proposed transaction on market power and telecommunications competition in Kentucky. Specifically, I will address Item 5 of the Commission's Order, which states:

> [i]n any refiling, [BA and GTE] must address the consequences their proposed merger will have on competition in telecommunications services in Kentucky. This discussion must include the effect any changes in the level of competition will have on GTE's ability to provide reasonable service at fair, just, and reasonable rates, and must include an explanation of why the merger will not enable the Joint Applicants to exercise inappropriate market power in Kentucky.

My testimony discusses the likely consequences of the merger on the ability of the combined companies to exercise market power in Kentucky and on competition in telecommunications markets in Kentucky. I specifically examine

[1] *In the Matter of: Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control*, (Case No. 98-519), April 14, 1999.

the pro-competitive benefits of approving the merger for Kentucky, and the effect of the merger on the combined company's incentive and ability to engage in anticompetitive behavior.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. I conclude that the merger will enhance rather than diminish competition in Kentucky telecommunications markets. Specifically, I conclude that the proposed transaction will likely result in a more effective telecommunications provider offering a wide range of complementary telecommunications services that customers demand from their service provider. In addition, I conclude that it is unlikely that the proposed transaction will increase concentration or market power in any relevant telecommunications market in Kentucky or that it will obstruct or prevent competition in the sale of telecommunications services in the Commonwealth. In both local and long distance markets, the merged firms will have no meaningful ability or incentive to engage in cross-subsidization or price or non-price discrimination against its competitors, and the transaction will not increase their ability or incentive to do so. Hence, I conclude that it would be unnecessary and unwarranted to impose additional conditions on the transaction. Finally, I show why this merger will not reduce the regulators' ability to regulate by means of benchmarks.

II. The Merger Would Increase Competition In Kentucky Telecommunications Markets

Q. HOW WOULD THE MERGER AFFECT TELECOMMUNICATIONS COMPETITION KENTUCKY?

A. Kentucky consumers would benefit from the additional competition the combined firm would bring to Kentucky telecommunications markets. The combination of BA and GTE would produce a more diversified and able competitor in two dimensions: (i) across the wide range of complementary telecommunications services that customers demand from their service provider and (ii) across the regional and worldwide markets in which customers demand service. Increased scale and geographic reach is important in global competition across narrowband, wideband and wireless services. The merger places the new firm at comparable size to the likes of AT&T-TCI-TCG, MCI WorldCom, British Telecom, Deutsche Telekom, France Telecom and Sprint, and NTT. If the GTE network fails to keep pace with those of its global competitors, Kentucky customers who depend on GTE facilities for retail services they buy from GTE or resold services they buy from others will be shortchanged in the functionality of the services they receive and the prices they pay.

Second, the merger would increase the ability of the combined firm to compete successfully in the long distance and data businesses. There would be some economies of scale from avoiding duplication of the networks and from sharing planning and R&D expenses. In the short run, the larger competitor that the merger would create should be able to obtain better prices for the transport services it resells from its facilities-based competitors. In the long run, the merger would give rise to a net addition in facilities-based competition in the national long distance markets for voice and data products.

Q. HOW WILL THE MERGER AFFECT GTE'S ABILITY TO COMPETE IN THE FUTURE?

A. Customers increasingly purchase from national or global suppliers. A regional supplier is disadvantaged in competition for local exchange or global services because large customers prefer to deal with a single supplier.

Telecommunications is increasingly becoming a global industry, and it is necessary to attain sufficient size to achieve economies of scale and scope and sufficient geographic scope to supply ubiquitous service in order to compete. Multinational firms like AT&T and MCI WorldCom are providing telecommunications services across the globe while competing with GTE in Kentucky. For example, Michael Armstrong of AT&T recently observed that

> ...the Bells see wisdom in consolidation. The idea that the U.S. can support eight or nine large, vertically integrated communications companies defies the critical mass needed to compete both here and abroad.[2]

Similarly, MCI WorldCom markets its ability to offer truly global network services to its customers using local-global-local connectivity all on its own network. Jack Grubman of Salomon Smith Barney describes the company's offering as follows:[3]

- WorldCom can offer local dial-tone as easily as a Regional Bell Operating Company can, but there is no Bell that comes remotely close to offering a

[2] C. Michael Armstrong, "'Inflections' Past and Future: New Directions for the Communications Industry." Speech presented to the Harvard Business School Club of New York, June 4, 1998, www.att.com/speeches/98/980604.maa.html.

[3] Jack B. Grubman, "MCI WorldCom Inc, Third Quarter Results – The Beginning of a Powerful Story" *Salomon Smith Barney*, November 16, 1998.

large-business customer WorldCom's type of end-to-end, integrated, on-net, one-platform, one-bill type of offering on a global basis,

- We believe that MCI's salesforce, calling into MCI's existing large-scale business customers, with an on-net product that allows a company to have anything from local dial-tone to sophisticated data services to UUNET, high speed IP services offered on one platform, will result in tremendous migration of local services to WCOM,

- The key to WorldCom's success is truly its ability to drive on-net solutions, which captures more of MCI's and WorldCom's customer growth on WCOM's own facilities.

A local exchange carrier with a regional geographic base would find it increasingly difficult to compete with these globally ubiquitous carriers for high-volume business customers. The effects of such competitive losses on regional LECs, however, would not be confined to high-volume business customers: the loss of contribution from those markets would place greater pressure on prices and quality for services purchased by residential and low-volume business customers.

Strategic mergers are a large part of the plans of GTE's competitors, and if regulation prevents GTE from keeping pace, customers in Kentucky will be left behind. For example, AT&T describes its competitive strategy in 1998 as follows:

> [w]e completed our $11 billion merger with Teleport Communications Group, Inc. (TCG), giving us local network facilities to reach business customers in more than 80 U.S. markets. We gained broadband connections to one third of U.S. households through our merger with Tele-Communications Inc. (TCI), which closed in March 1999. We conceived a joint venture

> with British Telecommunications plc (BT) designed to build a 100-city, global IP network and become a leading carrier of global communications traffic. We agreed to acquire the global network business of IBM for $5 billion. We continued the expansion of our national digital-wireless footprint, investing more than $1 billion in capital, assuming management control of our joint venture in Los Angeles and agreeing to acquire Vanguard Cellular Systems. And shortly into 1999, we announced a joint venture with Time Warner, Inc., as well as joint ventures with five TCI affiliates that will extend our cable telephony footprint into more than 40 million homes. (AT&T *Annual Report* at 29).

These consolidations are on-going. For example, during the pendancy of this merger, at least six major acquisitions were announced, each of which improves the strategic positions of the participants:

- Deutsche-Telekom and Telecom Italia would combine vertically-integrated firms in different regions (much like BA and GTE) to form the world's largest communications company ($210 billion capitalization).[4]

- AT&T announced its intention to buy cable giant MediaOne for $58 billion on April 22. According to AT&T Chairman C. Michael Armstrong, "Together, AT&T and MediaOne will bring broadband video, voice and data services to more communities, more quickly than we could separately or, in MediaOne's case, with any other company."[5]

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[4] "International Telecom Consolidation Quickens As Deutsche Telekom, Telecom Italia Agree To Merge," Telecommunications Reports, April 26, 1999, p. 7. On May 21, Olivetti secured 51 percent of Telecom Italia stock for $33 billion, but reports on May 25 suggest that Olivetti may still pursue the merger with Deutsche Telekom: "D'Alema Says Olivetti May Consider Merger," International Herald Tribune, Paris, May 25, 1999. Subsequent events suggest the merger with Deutsche Telekom is unlikely in the near future.

[5] "AT&T offers $62 billion in cash, stock and assumed debt and preferred equity for MediaOne Group," http://www.att.com/press/item/0,1193,439,00.html, May 6, 1999.

- BellSouth intends to purchase a ($5 billion) stake in Qwest, giving it a nationwide facilities base once it is able to supply interLATA services within its own region.[6]

- Global Crossing and Qwest have announced conflicting intentions to acquire US WEST and Frontier.[7]

- MCI WorldCom intends to diversify into wireless services, acquiring CAI Wireless for over $400 million[8] and SkyTel for $1.8 billion.[9]

These announcements of consolidations across the industry highlight the steps that companies like BA and GTE are taking to compete today and prepare for the future.

Q. ARE THERE OTHER BENEFITS TO COMPETITION FROM THE MERGER?

A. Yes. The merger would create a more effective competitor in markets for long distance and data services. For example, the merged company's greater size will lead to lower costs and thus lower prices to toll customers. Further, the company could avoid redundant development and maintenance of operations systems that support these businesses, including fraud detection systems, customer service support systems, and toll recording, rating, billing, and collection systems. Such operations systems are very expensive. For instance, MCI reportedly spends a billion dollars a year to develop software for new services like its "Friends and Family" service,[10] and Sprint anticipates

[6] "BellSouth Lays Out Long-Term Business Plan In $3.5 Billion 'Strategic Alliance' with Qwest," *Telecommunications Reports,* April 26, 1999, p. 3.

[7] Evelyn Nussenbaum, "Qwest Bids $66b for U S West, Frontier," *New York Post*, June 14, 1999.

[8] "CAI Wireless Signs Acquisition Letter with MCI WorldCom," *TR Daily*, April 19, 1999.

[9] "SkyTel The Limit, or Just The Start?" *Wireless Week*, June 7, 1999.

[10] "Long Distance: Innovative MCI Unit Finds Culture Shock in Colorado Springs," *Wall Street Journal* (June 25, 1996), p. A1.

spending on the order of $100 million for software development alone to run its Service Nodes for its ION offering.[11] The merged company's improvements in its new service development process would similarly help its ability to compete. As a more effective long distance competitor, it would be more likely to increase the competitiveness of the long distance market, reduce market prices, and stimulate innovation. Further, as a larger purchaser of interexchange carrier services for resale, it would be able to negotiate lower prices for its bulk transport purchases. This effect would put further downward pressure on retail long distance prices—which currently far exceed incremental cost, particularly for residential customers—to the benefit of all consumers.

Q. WHAT EFFECT WILL THE MERGER HAVE ON COMPETITION IN KENTUCKY'S LOCAL TELECOMMUNICATIONS MARKETS?

A. The merger will have no adverse effect on competition in Kentucky. All of GTE's local interconnection agreements will continue to be in effect after the merger just as they were before the merger. In addition, GTE will continue to be subject to the requirements of the 1996 Act as well as the regulatory requirements of this Commission.

Beyond that, the local telecommunications markets in Kentucky are particularly positioned to benefit in at least three ways if the merger is consummated. First, a merger between two national ILECS will facilitate the entry of CLECs into new markets. A merged BA/GTE company can offer CLECs a combined BA/GTE

[11] CC Docket No. 98-184, *In Re Applications of GTE Corporation and Bell Atlantic Corporation for Consent to Transfer Control*, Petition to Deny of Sprint Communications Company L.P. (November 23, 1998), ("Sprint Petition"), Affidavit of Gene Agee, at 8.

territory-wide account management team that would otherwise not have been available. Facilities-based competitors will also benefit from dealing with fewer and larger local exchange companies. There will be economies of scale in developing, negotiating and implementing the interfaces, protocols and other access services that carriers like Sprint believe they will need to launch services like Sprint's ION.

Second, the ability of the merging companies to adopt best practices from each other will benefit CLECs in Kentucky. When firms merge there is an incentive to share information quickly. Initially, the two companies can compare the cost, effectiveness, and quality of each other's processes. Then, if GTE has a better practice for some process than BA does, BA can deploy it, and vice versa. The result of this reciprocal adoption of best practices is lower costs and accelerated improvements in service quality to both companies' customers, including all the CLECs that purchase wholesale services or network elements. CLECs in Kentucky might benefit, for example, from improvements in network element provisioning or operational support systems to the extent that Bell Atlantic has a better practice or process.

Third, a merged firm will make GTE a stronger potential entrant in out-of-region local markets in Kentucky. Like BellSouth's announcement that it would compete in downtown Lexington, GTE has announced similar plans for Louisville in the next couple of years.[12] GTE already has some brand

[12] Jon Fortt, "BellSouth to Compete With GTE in Service to Lexington, Ky., Businesses," *Lexington Herald-Leader*, May 12, 1999.

recognition, existing customer relationships and existing facilities in Louisville[13] that lower the cost and raise the probability of successful entry. The merger with Bell Atlantic will strengthen GTE's entry position into the Louisville market and may also accelerate GTE's entry plans, which would enhance local competition in Kentucky.

Q. WOULD A CHANGE IN THE LEVEL OF COMPETITION AS A RESULT OF THE MERGER AFFECT GTE'S ABILITY TO PROVIDE SERVICE AT FAIR, JUST AND REASONABLE RATES IN KENTUCKY?

A. No. To the extent that a merged firm increases the scope of, or accelerates, GTE's out-of-region entry plans, it would only do so if the increase or acceleration were to benefit the firm. GTE's out-of-region entry (e.g., in Louisville) would be no less risky—and in fact would probably be less risky—post-merger than pre-merger. As I discussed above, a merged firm will make GTE a stronger potential entrant in out-of-region local markets in Kentucky which will improve GTE's ability to provide reasonable service at fair, just and reasonable rates to all its customers.

III. The Merger Has No Harmful Competitive Effects

Q. WHAT COMPETITIVE CONCERNS ARISE WHEN COMPANIES LIKE BELL ATLANTIC AND GTE PROPOSE TO MERGE?

A. Economists would raise two questions. First, does the proposed merger reduce current, actual or potential competition in any relevant market? That is

[13] *Ibid.*

to say, would the proposed merger increase concentration, increase market power or otherwise obstruct or prevent competition in any relevant market? Second, does the proposed merger increase the incentive or the ability for the merged firms to engage in anticompetitive behavior—*i.e.,* cross-subsidization or price or non-price discrimination?

Q. DOESN'T THE FACT THAT GTE WILL BE PART OF A LARGER COMPANY AUTOMATICALLY INCREASE ITS ABILITY AND INCENTIVE TO EXPLOIT MARKET POWER AND BEHAVE ANTICOMPETITIVELY?

A. No. The size of a firm does not determine the profit it can earn from exploiting market power or obstructing competition from rivals. Local exchange competition takes place in distinct geographic markets, and BA and GTE do not serve the same geographic markets in Kentucky.[14] Market concentration and market power are measured in distinct geographic markets, and the proposed transactions do not consolidate supply of telephone service among fewer firms in any market. Competing against GTE in Lexington, Kentucky is neither more nor less difficult if the combined firm also serves Philadelphia or New York. The measure of a local telephone company's market power in each local market is the degree to which it faces competition in those distinct local exchange markets within the state.

Q. ARE THERE ANY ADVERSE CONSEQUENCES OF HAVING A SINGLE FIRM SERVE SEVERAL DIFFERENT GEOGRAPHIC MARKETS?

[14] For example, Philadelphia and Lexington are in separate geographic markets because an increase in local exchange prices in Philadelphia will not induce BA's customers in Philadelphia to substitute service in Lexington for local service in Philadelphia.

A. No meaningful economic problems arise from such circumstances. An unregulated firm can exercise market power and extract monopoly rents from customers if it possesses the ability to hold the market price above the competitive level, but that ability is limited by the presence of other suppliers in that market. When customers try to substitute away from the firm's service to avoid the price increase, they must turn to suppliers in that market; suppliers in other geographic markets are by definition not a viable alternative. Thus, whether GTE in Kentucky serves markets other than Lexington has no bearing on its ability to control the market price in Lexington; all that matters for that determination is the ability of Lexington customers to substitute away from GTE's services if it tries to price above the competitive level.

Q. DO THE COMPETITIVE EFFECTS OF THE PROPOSED MERGER RAISE ANY CONCERN?

A. No. As explained below in more detail, there are no harmful effects on competition from the proposed merger. The proposed merger will not increase concentration, market power or otherwise obstruct competition from developing in Kentucky. The proposed merger will not affect Bell Atlantic's or GTE's ability or incentives—individually or jointly—to engage in either price or non-price discrimination.

A. The Merger Would Not Reduce Actual Or Potential Competition In Any Telecommunications Market.

Q. IS IT NECESSARY FOR THE KENTUCKY PUBLIC SERVICE COMMISSION TO PERFORM AN INDEPENDENT REVIEW OF THE LIKELY EFFECTS OF THE MERGER ON COMPETITION?

A. No, it would be unnecessary and inefficient for the Commission to conduct a full-scale antitrust investigation of the merger. Such an investigation (i) would be duplicative of the examination already conducted (and concluded) by the Department of Justice under the Hart-Scott-Rodino Act; (ii) would impose an unwarranted burden on the Commission; and, (iii) would risk an unnecessary delay in closing the transaction. The Commission should, of course, assure itself that the effects of the merger on competition in Kentucky are benign, and an application of standard economic analysis of mergers demonstrates that the merger here is not anticompetitive. Indeed, standard economic analysis is precisely what the Department of Justice applied in its review and subsequent approval of the merger.

Q. WHAT CONCLUSION DID THE U.S. DEPARTMENT OF JUSTICE REACH REGARDING THE COMPETITIVE EFFECTS OF THE MERGER IN KENTUCKY?

A. As part of its responsibility under the Hart-Scott-Rodino Act, the Justice Department undertook an extensive examination encompassing tens of thousands of pages of filed documents. The examination reviewed the competitive effects of the proposed merger, specifically to determine if the merger would substantially lessen competition in any relevant market. On May 7, 1999, the Justice Department and BA and GTE entered into a consent decree which found the merger to be in compliance with the antitrust laws, once overlapping cellular properties were divested.[15] The Justice Department considered allegations of the same anticompetitive effects raised by intervenors in Kentucky but concluded that the merger was competitively benign. On June 7, 1999, the Justice Department filed its Competitive Impact Statement under the Tunney Act, concluding that the settlement of the merger lies "within the reaches of the public interest."[16]

Q. DID THE JUSTICE DEPARTMENT CONSIDER MARKET CONDITIONS IN KENTUCKY IN REACHING THIS CONCLUSION?

A. Yes. The Justice Department is required to determine whether the merger would violate U.S. antitrust laws. The law most relevant to mergers is Section 7 of the Clayton Act, which, as amended,[17] states that

> no person engaged in commerce...shall acquire directly or indirectly....another person engaged also in commerce or in any activity affecting commerce, where *in any line of commerce* or in any activity affecting commerce *in any section of the country*, the effect of such acquisition may be substantially to lessen competition, or to tend to create a monopoly. [emphasis added]

Thus, when the Justice Department determines that "there is no reason under the antitrust laws to proceed with further litigation"[18] with respect to the merger,

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[15] None of the properties in question are in Kentucky.

[16] *United States of America v. Bell Atlantic Corporation and GTE Corporation*, Civil No: 99-1119 (LFO), (United States District Court for the District of Columbia), Competitive Impact Statement, June 7, 1999 ("Competitive Impact Statement") at 30.

[17] The Celler-Kefauver Act of 1950, 64 Stat. 1125, 15 U.S.C.A. §18 (1987) plugged a loophole regarding the acquisition of assets rather than stock, and Stat. 1154 1158 (1980) expanded §7 to include entities other than corporations engaged in commerce or in activities affecting commerce.

it has examined telecommunications market conditions in Kentucky and other states and concluded that the effect of the merger is *not* substantially to lessen competition or to tend to create a monopoly in any Kentucky telecommunications market.

Q. WHAT ECONOMIC ANALYSIS SHOULD BE USED TO EVALUATE THE EFFECTS OF A PROPOSED MERGER ON COMPETITION?

A. The analytic framework appropriate for this purpose has been outlined in the Department of Justice *Merger Guidelines*, a set of guidelines based on economic theory and used routinely by the United States Department of Justice and the Federal Trade Commission to assess the effects of mergers on competition and consumer welfare in many industries.

Q. HOW DOES THE ANALYSIS WORK?

A. This analysis begins by identifying the relevant product and geographic markets in which the merging parties currently participate. Within those markets, it then measures the effect of the merger on market structure—the number and size distribution of firms competing in a market—as an indicator of the likely effect of the merger on competition in those markets. The Guidelines consider both the level of and the change in market concentration. If the merger significantly increases concentration in a concentrated market,[19] then the Guidelines

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(...continued)

[18] Competitive Impact Statement at 28.

[19] Quantitatively, the *Guidelines* divide markets into three categories based on the Herfindahl-Hirschman Index (HHI), which measures the sum of squared market shares of all firms in the market. Markets having a post-merger HHI below 1000 are treated as unconcentrated, and mergers in such markets are thought to be sufficiently unlikely to have adverse competitive effects that the enforcement

(continued...)

examine other factors affecting competition, including the ease of entry of new firms into the market, the pricing history of firms currently in the market, and the ease with which consumers can substitute away from the service in question in response to an increase in price.

A separate competitive analysis is applied to potential competition, assessing the degree to which the merger is likely to eliminate one of two sources of *potential* competition: (i) a "perceived potential" competitor whose perceived threat of entry (whether or not real) acts to discipline current prices in the market or (ii) an "actual potential" competitor whose likely entry in the future (whether perceived or not by current competitors) would reduce future market concentration and help to control future price increases in the market. The effects of potential competition are necessarily more speculative than those of actual competition; consequently, pure potential competition cases are relatively rare.

The *Merger Guidelines* initially examine four necessary conditions (called "objective factors") to identify cases in which harmful effects from the elimination of a potential entrant would be plausible: high market concentration,

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(...continued)

agencies generally perform no further analysis. Markets having an HHI between 1000 and 1800 are treated as moderately concentrated, and a merger that causes an increase of the HHI of more than 100 points in a moderately concentrated firm will generally trigger an examination of further factors. A post-merger HHI in excess of 1800 represents a concentrated market. Mergers in concentrated markets that raise the HHI by more than 50 points will generally trigger further investigation, and mergers in concentrated markets that raise the HHI by more than 100 points will presumptively increase the ability to exercise market power and—the *Guidelines* suggest—would normally be opposed by the agencies. In practice, however, post-merger HHI increases of 100 or more points in concentrated markets are not consistently challenged.

ease of entry, likelihood of entry by the acquiring firm, and market share of the acquired firm. Quantitatively, the enforcement agencies do not challenge a merger on grounds of harm to potential competition when the HHI is less than 1800, when entry is easy by firms having no particular advantage in entering the market, when the acquired firm has less than five percent of the market or when three or more firms possess the same or comparable particular advantage in entering the market. Notwithstanding the presence of three or more similarly-situated firms, if there is strong evidence of likely entry by the acquiring firm—e.g., significant investments indicating that a decision to enter had been made, not just contemplated—the agencies would estimate the likely scale of entry and evaluate the merger as if entry had occurred at that scale.[20]

In summary, if a proposed merger does not increase concentration in an already-concentrated market or eliminate a unique source of potential competition that disciplines prices now or in the future in such a market, the merger is treated as competitively benign. Such treatment accords with economic theory: if markets are unconcentrated or the merger does not substantially increase concentration in a market, then the merger is unlikely to increase the market power of the participants or the likelihood that the merged firm could raise prices or reduce the level of service quality.

Applying this theory to the current case, (i) there is no current, actual competition between Bell Atlantic and GTE in any market and (ii) neither Bell

[20] See Section 4 of the 1984 *Merger Guidelines*. These policies regarding the effects on potential competition were specifically cited as remaining in effect in the *Statement Accompanying Release of the Revised Merger Guidelines*, April 2, 1992, at 3.

Atlantic nor GTE possesses any particular advantage as a potential entrant into each other's territory. The proposed merger therefore does not increase concentration in a relevant market or eliminate a unique source of potential competition that would otherwise be required to discipline prices. For those reasons, the Justice Department determined that there was no reason to believe that the merger would substantially lessen competition or tend to create a monopoly in Kentucky telecommunications markets and elsewhere.

Actual and potential competition in Kentucky comes from the carriers that have already spent millions of dollars on facilities and networks, begun marketing services, and established customer relationships in Kentucky. The following examples highlight this activity in Kentucky:

- BellSouth is currently in the process of laying a state-of-the-art fiber ring around Lexington that will allow it to serve large business customers' voice and data transmissions.[21]

- Hyperion, a fully facilities-based CLEC and an integrated local and long distance provider, has installed a Lucent 5ESS switch in Lexington and has spent millions of dollars on acquiring local and long-haul transport capacity to serve its customers in Kentucky.[22]

- ICG Communications operates a Lucent 5ESS switch in Lexington allowing it to offer local, long distance, international calling, enhanced services, high-speed data transmission, and wholesale ISP services.[23]

[21] News Release, "BellSouth Plans to Serve Large Business Customers in Lexington," April 28, 1999.

[22] Dr. Paul Rappoport, "Competitive Network Alternatives In Eight Typical GTE Franchise Areas," *PNR & Associates, Inc.*, GTE Comments in CC Docket No. 96-98, May 24, 1999, at 50-52.

[23] *Ibid.* at 56.

- As a result of significant expenditures by CLECs in Lexington, nearly 60% of business customers are within 1000 feet of CLEC fiber and approximately 80% of both business and residential customers are within 18,000 feet of CLEC switches.[24]

Q. WILL THE MERGER ENABLE THE JOINT APPLICANTS TO EXERCISE INAPPROPRIATE MARKET POWER IN KENTUCKY?

A. No. The proposed merger does not increase concentration or remove an actual or potential competitor from any telecommunications market in Kentucky. Accordingly, the merger would not *increase* GTE's ability—notwithstanding regulation—to hold any market price above its competitive level. Thus whatever market power GTE may currently possess in its local exchange markets, the merger will not increase it.

Q. WOULDN'T IT BE AN ADVERSE CONSEQUENCE IF THE MERGER MAKES GTE A MORE SUCCESSFUL COMPETITOR, THEREBY MAKING IT MORE DIFFICULT FOR NEW ENTRANTS TO COMPETE AND INCREASE THEIR SHARE OF LOCAL EXCHANGE MARKETS IN KENTUCKY?

A. Not at all. Customers benefit from changes that reduce prices, increase service quality, quantity and variety. Sometimes new entrants bring such benefits to consumers, but sometimes those benefits come from efficiency improvements by the incumbent firm. For a regulated incumbent firm like GTE, such benefits will improve the company's ability to provide service at fair, just and reasonable rates. Certainly consumers are better off whenever efficiency increases, and it would be deplorable public policy to prevent an incumbent from becoming more

[24] *Ibid.* at IV-4.

successful at serving customers in order to boost new entrants' share of the market.

B. The Merger Does Not Increase The Likelihood Of Anticompetitive Acts.

Q. WHAT TYPES OF ANTICOMPETITIVE BEHAVIOR DO INTERVENORS OPPOSING MERGERS LIKE THE GTE/BA MERGER RAISE AS REASONS TO DENY SUCH MERGERS?

A. Intervenors in other ILEC mergers have raised various arguments that purport to show that the merger will increase both the ability and incentive of the merging parties to engage in various forms of anticompetitive behavior. These forms of anticompetitive behavior include price discrimination—where the ILEC effectively charges itself a lower rate for carrier access than it charges its long distance competitors—and non-price discrimination—where the ILEC effectively raises the costs that CLECs or IXCs incur to compete against it. These arguments have been rejected by regulatory and antitrust enforcement agencies which have generally concluded that ILEC mergers do not increase the likelihood of price or non-price discrimination. I agree and show below that the merger affects neither the incentive or ability of Bell Atlantic or GTE to engage in anticompetitive behavior. In particular, the merger does not change BA's or GTE's ability or incentive to forestall local exchange competition or distort competition in the long distance market. I would preliminarily note that the only parties that ever raise and defend these arguments are the large interexchange carriers, such as AT&T and Sprint, who would face serious competition from the merged company. These competitors' claims that the merger would increase the ILEC's ability and incentive to engage in price squeezes, cross-subsidization or various acts of non-price discrimination have no foundation in economics or in experience in telecommunications markets.

1. The merger does not increase the likelihood of price discrimination.

Q. WHAT IS PRICE DISCRIMINATION AND HOW IS IT RELATED TO THE PROPOSED MERGER?

A. Opponents of ILEC mergers claim the merged firms will engage in price discrimination—specifically, a price squeeze in which the ILEC effectively discriminates by pricing facilities used by its retail services lower than the price it charges a competitor to use those facilities. A true price squeeze occurs when the supplier of an essential facility requires a dependent competitor to pay more for the essential facility than the supplier effectively charges its own retail customers for use of that facility. IXCs generally assert that a merger would increase the incentive and ability for Bell Atlantic and GTE to exercise a price squeeze with respect to the prices they charge IXCs for interconnection.

Q. WHAT ARGUMENTS HAVE COMPETITORS RAISED TO SUGGEST THAT THE MERGER WOULD INCREASE THE LIKELIHOOD OF PRICE DISCRIMINATION?

A. IXCs assert that because carrier access charges are set above forward-looking economic cost, the merged firm would be able to discriminate by effectively charging its long distance affiliate a lower price for access than it charges its competitors. The merger would exacerbate this ability because the merged firm would control a higher proportion of interLATA calls that originate and terminate in a single region than either Bell Atlantic or GTE individually controls today .

I show below that both arguments are incorrect. ILECs cannot effectively charge a lower access price to their long distance affiliates, and the merger would not make such discrimination more likely because controlling both ends of a call creates no more ability to discriminate beyond that achieved by controlling one end of the call.

Q. SHOULD THE COMMISSION BE CONCERNED ABOUT A PRICE SQUEEZE?

A. No. For a merger to increase the likelihood of a price squeeze, there must be some ability or incentive to undertake such an action in the first place. IXCs have argued that ILECs have an ability and incentive to engage in vertical price squeezes because their access services are priced above cost, and they (or their long distance affiliates) will not effectively pay those access prices. Rather, IXCs say, the portion of the access price above cost—also referred to as the "contribution"[25] from access—amounts to an intra-company transfer payment so that ILECs can profitably underprice IXC retail services even if the ILEC costs are higher. These claims are wrong for two basic reasons.

First, the claim that the ILEC does not effectively pay access charges is nothing more than a familiar but elementary economic error. The ILEC entity as a whole is far from indifferent about the contribution from access; on the contrary,

[25] Contribution is defined as the excess of price over incremental cost.

loss of this contribution is a real cost to the firm that any prudent manager would have to take into account. When an IXC carries the interLATA call, the ILEC receives the contribution from access. When the ILEC—or its affiliate—carries the call, the ILEC entity no longer receives the contribution from an IXC. While the payment from the ILEC affiliate to the ILEC for access is a transfer payment and—in some respects—a matter of indifference to the ILEC-as-a-whole, the absence of an IXC's contribution is a loss of real net income that occurs because the ILEC carries the call rather than an IXC. A prudent manager responsible for the ILEC's total profitability must include that opportunity cost of access contribution forgone as a real and important cost of providing retail long distance service. If, for example, the contribution from access were greater than the contribution from retail long distance service, total ILEC profits would fall every time the ILEC affiliate managed to win a new long distance account.

Second, basic economic theory shows why a price squeeze would be an unlikely event in the present circumstances. Assuming there are no alternatives to ILEC carrier access service, an interLATA price squeeze consists of pricing retail long distance service below the sum of the incremental cost of long distance and the contribution from carrier access.[26] In the short run, at least, a price squeeze thus reduces the ILEC's profits. To the firm, the economics of a price squeeze are the same as the economics of predatory pricing. A price squeeze can only be profitable if, by undertaking it, the ILEC

[26] At any price above this level, an IXC can purchase access from the ILEC and if its non-access costs are no greater than the non-access costs of the ILEC, the IXC can profitably compete against the ILEC's retail price.

can (i) drive its interLATA competitors from the market and (ii) erect sufficient barriers to entry so that competitors will not be able to reenter the market when it attempts to raise its retail interLATA prices to recoup its lost profits.

Both elements of that scenario are unlikely in interLATA long distance markets. AT&T, Sprint (and other long distance carriers like MCI WorldCom) are large, global companies with deep pockets having sunk ubiquitous facilities (switches and optical fiber transport) throughout the country. Long distance traffic originating in Bell Atlantic and GTE territory amounts to about one-third of U.S. originating traffic, and, as the FCC has recognized,[27] regional anticompetitive pricing could not reduce IXC profits sufficiently to drive them from the long distance market. IXCs use their facilities to supply services other than retail switched long distance service that originates in-region,[28] and even if a price squeeze in switched long distance (based on control of switched access services) were to drive the IXCs out of the switched services market, they and their facilities would remain in place, preventing the ILEC from raising long distance prices to recoup its losses.[29]

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[27] "At least three interexchange carriers—AT&T, MCI, and Sprint—have nationwide or near-nationwide facilities. These are large well-established companies with customers throughout the nation. It may be unlikely, therefore, that a BOC affiliate, whose customers presumably would be concentrated in one geographic region, could drive one or more of these companies from the market" *Notice of Proposed Rulemaking*, FCC 96-308, ("Non-Discrimination Safeguards NPRM"), released July 18, 1996 at ¶137.

[28] For example, private network services for large business customers and termination of interLATA calls from other regions.

[29] "Even in the unlikely event that [a BOC affiliate] could drive one of the three large interexchange carriers into bankruptcy, the fiber-optic transmission capacity of that carrier would remain intact, ready for another firm to buy the capacity at a distress sale and immediately undercut the [affiliate's] noncompetitive prices" Non-Discrimination Safeguards NPRM at ¶137.

In addition, imputation safeguards essentially eliminate the ability of Bell Atlantic and GTE to impose a price squeeze of the kind described above. Imputation effectively requires that the ILEC price its retail service as if it purchased the necessary facilities under the same conditions as its competitors. The economic purpose of imputation rules is to safeguard competition in a market by ensuring that equally efficient firms are not denied the ability to compete in a market because of the prices that a firm with market power charges for essential inputs.

Q. ARE THERE ANY ADDITIONAL REASONS WHY IXCS' FEARS ABOUT A PRICE SQUEEZE ARE UNFOUNDED?

A. Yes. The simple assumption (inherent in the argument) that IXCs must purchase ILEC switched access services for all of their traffic is simply wrong. This is particularly true for the two largest IXCs, AT&T and MCI WorldCom: AT&T owns TCG (the nation's largest CAP) and MCI WorldCom owns MFS and Brooks Fiber. Practically since divestiture, IXCs have been using dedicated access facilities—self-supplied or purchased from Competitive Access Providers ("CAPs") or from the ILECs' special access tariffs—to serve their high volume customers and to bypass ILEC access facilities. In addition, access competition from CLECs is proliferating. There are currently more CLECs than ILECs in the U.S.,[30] and in the first quarter of 1998, CLECs added more business access lines than all of the Bell Operating Companies combined.[31]

[30] 1,429 CLECs holding 2,844 competitive local exchange certificates compared with 1,332 ILECs, according to the *State Telephone Regulation Report*, Vol. 16, No. 19, September 18, 1998 at 1.

[31] Salomon Smith Barney Report, "CLECs Surpass Bells in Net Business Line Additions for First Time," May 6, 1998.

The competitive position of the CLEC industry has reached in two years what took MCI over ten years to achieve after long distance markets were opened to competition.[32] The current consolidation among the largest IXCs and CAPs also ensures that IXCs can self-supply carrier access service to many customers without dependence on ILEC access services. Analysts expect WorldCom—through its previous acquisitions of MFS and Brooks Fiber—to provide MCI with more than 70 percent of its access capacity, and AT&T, through its purchase of TCG, is expected to avoid a significant portion of ILEC access services.[33] In addition, IXCs can avoid ILEC access services by purchasing the network elements of carrier access service from the ILEC at regulated prices set at forward-looking economic cost.

Q. POST MERGER, THERE WOULD BE AN INCREASE IN THE PERCENTAGE OF CALLS THAT ORIGINATE AND TERMINATE IN A SINGLE CARRIER'S REGION (THE MERGED BA-GTE REGION). DOES THIS INCREASE THE INCENTIVE AND ABILITY TO ENGAGE IN A PRICE SQUEEZE?

A. No. From an economic perspective, an increase in minutes terminating in–region is competitively irrelevant. Given the requirements in Sections 251 and 252 of the Telecommunications Act, ILECs have no practical ability or incentive to engage in price discrimination against long distance competitors, and control over both the originating and terminating end of a call imparts no additional ability or incentive. In several recent decisions, the FCC has reiterated its belief

[32] *Ibid.*

[33] Salomon Smith Barney, "WorldCom, Inc. Company Report," April 9, 1998 and Prudential Securities, "AT&T Company Update," January 21, 1998.

that "(p)rice discrimination is relatively easy...to detect," and is "therefore unlikely to occur" and that its system of safeguards is sufficient to prevent anticompetitive pricing.[34] The FCC has also expressed skepticism regarding the effect of a merger on the ability and incentive to price anticompetitively:

> [w]hile we agree with MCI that the merged entity will provide both originating and terminating services on a substantially greater proportion of individual interexchange telephone calls than either Bell Atlantic or NYNEX does separately, it is not apparent how the merger increases the likelihood of a successful price squeeze. The combined firm will provide access services in precisely the same instances as did the two firms separately.[35]

Similarly, control over both ends of a higher proportion of long distance calls imparts no additional ability or incentive to raise competitors' costs through non-price discrimination; see Section B below.

In addition, although IXCs will likely argue that Bell Atlantic and GTE have market power in the provision of interconnection services, in fact, Bell Atlantic and GTE are closely regulated at both the state and federal level and thus have no ability to control the prices of interconnection or UNEs. Indeed, rates for interconnection and UNEs are governed by the Telecommunications Act and the rules and regulations of the FCC and this Commission. Thus, Bell Atlantic and GTE have absolutely no ability to raise the price of interconnection and/or UNEs, and therefore cannot be said to have any market power over UNEs and/or interconnection. Whether those prices have been set at efficient levels is

[34] SBC/PacTel Order at ¶53. See, e.g., *Access Charge Reform Order*, FCC 97-158 at ¶¶280-282 and Bell Atlantic-NYNEX at ¶117.

[35] Bell Atlantic-NYNEX at ¶118.

an entirely separate issue from the merger at hand. Rather than enhancing an ILEC's ability to discriminate, the mandate to provide interconnection and UNEs (along with the mandatory resale of retail services) indeed act as deterrents to discriminatory behavior.

2. The merger does not increase the likelihood of non-price discrimination.

Q. WHAT IS NON-PRICE DISCRIMINATION AND HOW IS IT RELATED TO THE PROPOSED MERGER?

A. Those who oppose this merger will claim the merged firms will engage in non-price discrimination—specifically, intentionally degrading the quality of interconnection provided to the merged firm's dependent competitors. They claim that the incentive and ability to engage in non-price discrimination will increase with the merger because the benefits of such discrimination are greater to a merged firm that controls both ends of a larger fraction of calls. They also claim that the merged company would internalize the benefits from anticompetitive acts that spill over into other ILECs' service territories. As I discuss below, both elements of these assertions are incorrect.

Q. SHOULD THE COMMISSION BE CONCERNED ABOUT NON-PRICE DISCRIMINATION?

A. No. First, there is no economic basis for the claim that the merged firm would have more incentive or ability to engage in non-price discrimination. Two separate arguments are involved here: (i) that the ILEC has the ability and the incentive to use control of a local exchange bottleneck to undertake anticompetitive acts in the local exchange or long distance markets, and (ii) that a merger of two ILECs increases either this ability or incentive. The general argument made by IXCs and CLECs is usually that rival carriers require access from multiple ILECs in order to compete efficiently and that the merger of two ILECs increases their incentives and ability to discriminate against competing carriers because each can now capture the anticompetitive benefits that spillover to the other. The incentive for discrimination apparently stems from the allegedly higher margin that ILECs earn from retail local exchange and toll service than from access service, and the merger is alleged to increase that ability and incentive because it internalizes what would otherwise have been the out-of-region externality from anticompetitive acts. Indeed, the FCC has already considered and rejected these arguments when it reviewed the Bell Atlantic-NYNEX merger. The FCC observed that:[36]

> [i]n theory, each applicant could, albeit unlawfully, currently engage in non-price discrimination within its own territory. Although the merger increases the number of instances in which the same incumbent LEC is the access provider at both ends of an interexchange call, opponents of the proposed merger have not indicated how this could increase Applicants' incentive or ability to engage in non-price discrimination. For the most part, non-price discrimination practiced at one end of a telecommunications circuit (origination or termination) would seem to be sufficient to harm a competitor. In any event, non-price discrimination is a violation of several provisions of the Communications Act, including those requiring Bell Companies to provide interexchange service only through a separate subsidiary, not to favor their subsidiaries, and to provide nondiscriminatory access to all long distance carriers.

[36] Bell Atlantic-NYNEX at ¶120.

Rather than having an increased incentive to practice non-price discrimination, a merged Bell Atlantic and GTE, have strong *dis*incentives to engage in discriminatory behavior: it is illegal, and it would prevent the merged company from entering and remaining in the interLATA business other states. It is more reasonable to expect the desire to obtain and keep interLATA authority—where retail margins are large—to dominate the incentives to exclude competitors from the exchange and exchange access markets (where margins are alleged to be relatively small).

Second, proponents of the non-price discrimination argument provide no explanation for how such non-price discrimination can simultaneously be effective for retail customers but imperceptible to competitors, regulators or courts. IXCs and CLECs have a strong interest—backed up with technically powerful tools—to detect network troubles, and they have every incentive to bring problems to the attention of the ILEC, the regulator or the court. Ignoring the problem of legal and regulatory sanctions, as a competitive strategy, such non-price discrimination is likely to backfire. The ILEC risks driving its largest customers—AT&T-TCG-TCI, MCI WorldCom-MFS-Brooks Fiber and Sprint—to seek other alternatives for exchange access or UNE services. Because IXCs have alternatives to ILEC switched access service—particularly for serving high-volume customers—avoiding or resolving complaints from these high-volume customers is obviously a serious priority that Bell Atlantic and GTE pursue in their own self-interest.

Third, assuming selective degradation were possible, the ability to degrade service quality at one end of the call would be sufficient as the FCC recognized in the passage from its Bell Atlantic-NYNEX Order cited above. If twice as much noise on the line would be more profitable, the ILEC could simply apply that additional noise or provisioning delay to the originating end rather than applying half the amount to two ends. Thus, the fact that the merged firm controls both ends of a larger fraction of calls does not increase its ability or incentive to degrade service quality of its competitors.

Fourth, the ILEC has no incentive to degrade the quality of terminating access. It competes with IXCs for originating toll service and receives no strategic benefit from discriminating against their terminating traffic, even assuming such discrimination were possible.[37] Long distance carriers receive revenue for calls that originate on their network and pay originating carrier access charges to the LEC. In contrast, carriers receive no revenue from the terminating party for terminating a call and still pay terminating access charges to the terminating LEC. Retail long distance charges are generally assessed to the originating party while carrier access charges are assessed to long distance suppliers at both the originating and terminating ends. Noise on either end presumably irritates the paying customer on the originating end, increasing the likelihood that he would change carriers. Such activity should have no effect on the carrier choice of the terminating customer who generally receives calls carried by carriers selected by someone else. Only under some rare circumstances involving repeat calling could dissatisfaction at the terminating end of a call affect the call originator's choice of a long distance carrier.

[37] This fact is embedded in Section 271(b)(2) of the Telecommunications Act of 1996 where the RBOCs were permitted to terminate interLATA traffic they originated out-of-region before having met the checklist and other safeguards that pertain to in-region originating traffic.

Fifth, absent the merger, GTE's degrading of an IXC's access quality might harm, rather than benefit BA's long distance affiliate. Degrading an IXC's terminating access simultaneously degrades the service of any carrier who resells the IXC's long distance services out-of-region.[38] This external effect goes in the opposite direction from that assumed by the IXCs: discrimination against an IXC penalizes all the resellers that use that IXC to carry calls, including possibly the BA long distance affiliate. All else equal, when the merged firm internalizes this externality, its incentive to discriminate would be reduced—recognizing the relative harm its discrimination would cause to BA's affiliate—rather than increased.

Q. ARE THERE EXAMPLES OF MARKETS WHERE DEPENDENT COMPETITORS HAVE BEEN TREATED FAIRLY?

A. Yes. There are many markets where dependent competitors have competed successfully against ILECs and their affiliates, despite their need to purchase interconnection or some other network service from the ILEC.[39] In the current setting, there is one particular market of interest. There is one long distance submarket—intraLATA toll—in which BA has terminated almost every call it has originated for the past decade, yet none of the concerns raised here have materialized: competition has grown and has not been impeded in that market.[40] When IXCs entered these markets in the past, they (i) started with a

[38] The ILEC cannot distinguish between IXC retail calls and IXC resold calls.

[39] Examples include cellular service, PCS, paging, voice messaging, customer premises equipment and intraLATA toll.

[40] See P.S. Brandon and R. Schmalensee, "The Benefits of Releasing the Bell Companies from the Interexchange Restrictions," *Managerial and Decision Economics*, Vol. 15 (July-August 1995), pp. 349-364 which found no complaints of anticompetitive RBOC behavior in the intraLATA toll markets.

small initial market share, (ii) had few facilities within the LATA, so that long distance competition required substantial use of LEC access facilities, at least initially (iii) did not have complete dialing parity in any LATA, (iv) did not benefit from the unbundling required by Sections 251 of the Telecommunications Act, and (v) had to compete against inexpensive extended-area local calling within the LATA and overcome the imperfectly perceived differences between local and long distance calling. Even under these adverse circumstances, LECs are losing significant amounts of market share, particularly for large business customers that combine interLATA and intraLATA traffic on the same dedicated facilities.

IV. <u>The Merger Does Not Reduce The Regulators' Ability To Benchmark</u>

Q. WHAT IS BENCHMARKING AND HOW IS IT RELATED TO THE PROPOSED MERGER?

A. Competitors assert that ILEC mergers will reduce the number and quality of benchmarks the FCC uses to regulate and thus should be rejected on those grounds. For example, Sprint submitted an analysis of benchmarking in its petition to deny the BA/GTE merger at the FCC.[41] The analysis outlines three types of comparisons across firms upon which they claim the FCC relies: average-practice benchmarking, best-practice benchmarking and worst-practice benchmarking. It associates average-practice benchmarking with interstate

[41] "Benchmarking and the Effects of ILEC Mergers: Declaration of Joseph Farrell and Bridger M. Mitchell," October 14, 1998 ("Farrell-Mitchell"), Attachment to the Petition to Deny of Sprint Communications Company L.P., before the Federal Communications Commission, CC Docket No. 98-184.

price cap regulation and sizing the universal service fund, best-practice regulation with various technical requirements for interconnection, particularly the LRN method of local number portability, and worst-practice regulation with identifying outliers for collocation and overhead costs and the penetration of second lines. Through simple examples, the analysis suggests that the merger would reduce the FCC's ability to benchmark

> both through reducing available information if ILECs do not change their substantive behavior, and also by worsening their incentives under benchmarking.[42]

Q. SHOULD THE COMMISSION BE CONCERNED ABOUT A NEGATIVE IMPACT ON BENCHMARKING?

A. No. While it is true that more data is always no worse than less, it does not follow that reducing the number of observations through a merger reduces the precision with which regulators can measure important parameters. For regulation in general, and in particular for interconnection regulation, the set of firms for benchmark comparisons is much larger than four Regional Bell Operating Companies ("RBOCs") plus GTE. Local exchange telephone companies are regulated in each state in which they operate, and state regulators typically exercise independent jurisdiction over communications services provided in their state. As a result, important characteristics of communications service (e.g., costs, prices, service offerings, investment, technology deployment) all vary across states even within operating telephone companies or regional holding companies. For example, state regulators

[42] Farrell-Mitchell, p. 27.

frequently compare local interconnection and retail service prices across states as a guide to the reasonableness of the prices proposed in their state. The standard industry source for detailed demand, cost, pricing and investment data for local exchange telephone companies is the FCC's *Statistics of Communications Common Carriers* which has been published annually since 1939. As of December 1996, data were reported individually for 51 separate LECs accounting for more than 90 percent of U.S. phone lines.[43] Moreover, the SBC-PacTel and Bell Atlantic–NYNEX mergers did not reduce the number of independent observations available to regulators, competitors and the public: the *Statistics of Communications Common Carriers* identifies the same 51 ILECs as of December 1997 *and* December 1998 in Tables 2.9 and 2.10, despite the consummations of the mergers in April and August of 1997.

Q. WILL THE PROPOSED MERGER ELIMINATE THE CONTINUED ABILITY OF REGULATORS AND COMPETITORS TO COMPARE THE BEHAVIOR OF VARIOUS ILECS?

A. No. Today's benchmarking data is increasingly coming from new sources—new firms entering local exchange and exchange access markets. These firms are frequently very different from ILECs; they use different technologies and different back-office systems, provide different mixes of services, etc., so that the new observations that are available are likely to be independent of and different from the corresponding observations for the large ILECs—increasing the ability of regulators to evaluate the behavior of the large ILECs. The recent

[43] Federal Communications Commission, *Statistics of Communications Common Carriers*, 1996/1997 edition, at vi.

mergers between CAPs and IXCs provide a new form of vertical integration (combining exchange, exchange access and interLATA services), and observations from AT&T-TCG-TCI and MCI WorldCom-MFS-Brooks Fiber add considerably to the Commission's and competitors' ability to benchmark local exchange telephone companies.

Furthermore, with the implementation of the Telecommunications Act, the Commission's regulatory task has shifted, and parties with a greater incentive to overcome informational asymmetries have been given the necessary tools. Today, sophisticated CLECs compare offerings for unbundled network elements across operating telephone companies, across states and even within a state. The interconnection agreements submitted to state regulators frequently contain specific, measurable quality standards subjecting the ILEC to financial penalties for substandard performance. In the access markets, IXCs and ILECs negotiate quality standards against which IXC report cards monitor ILEC performance.

In addition, the ILEC itself has become a benchmark against which the quality of the wholesale services it offers to CLECs who interconnect or purchase unbundled network elements is measured. Section 251 of the Telecommunications Act requires that interconnection quality provided to CLECs be equal to that provided to the ILEC itself or any of its affiliates, and for RBOCs like Bell Atlantic, nondiscriminatory access to network elements includes OSS which the FCC has interpreted to mean that

> [f]or those OSS functions provided to competing carriers that are analogous to OSS functions that a BOC provides to itself in connection with retail service offerings, the BOC must provide access to competing carriers that is equal to the level of access that the BOC provides to itself, its customers or its affiliates, in terms of quality, accuracy and timeliness.[44]

For these functions, elements and services, it is unnecessary to compare standards across RBOCs. To detect anticompetitive discrimination in the supply of these elements, the proper comparison is between the ILECs offerings to CLECs and the elements it uses itself or offers to its affiliates.

Finally, since the implementation of the Telecommunications Act, these new benchmarks have become portable. The "most-favored nation" clause of Section 252(i) requires the local exchange carrier to make available any interconnection service or network element supplied in any agreement approved under Section 252 to any other telecommunications carrier under the same terms and conditions. Thus CLECs have every incentive to seek out and observe the terms and conditions their competitors are negotiating with the ILEC and ensure that their interconnection arrangements are equally satisfactory.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[44] *In the Matter of Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934 as amended, To Provide In-Region, InterLATA Services in Michigan*, CC Docket No. 97-137, August 19, 1997 at ¶139.

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Dr. Taylor received a B.A. *magna cum laude* in Economics from Harvard College, an M.A. in Statistics and a Ph.D. in Economics from the University of California at Berkeley. He has taught economics, statistics, and econometrics at Cornell and the Massachusetts Institute of Technology and was a post doctoral Research Fellow at the Center for Operations Research and Econometrics at the University of Louvain, Belgium.

At NERA, Dr. Taylor is a Senior Vice President, heads the Cambridge office and is Director of the Telecommunications Practice. He has worked primarily in the field of telecommunications economics on problems of state and federal regulatory reform, competition policy, terms and conditions for competitive parity in local competition, quantitative analysis of state and federal price cap and incentive regulation proposals, and antitrust problems in telecommunications markets. He has testified on telecommunications economics before numerous state regulatory authorities, the Federal Communications Commission, the Canadian Radio-Television and Telecommunications Commission, federal and state congressional committees and courts. Recently, he was chosen by the Mexican Federal Telecommunications Commission and Telmex to arbitrate the renewal of the Telmex price cap plan in Mexico. Other recent work includes studies of the competitive effects of major mergers among telecommunications firms and analyses of vertical integration and interconnection of telecommunications networks. He has appeared as a telecommunications commentator on PBS Radio and on The News Hour with Jim Lehrer.

He has published extensively in the areas of telecommunications policy related to access and in theoretical and applied econometrics. His articles have appeared in numerous telecommunications industry publications as well as *Econometrica*, the *American Economic Review*, the *International Economic Review*, the *Journal of Econometrics*, *Econometric Reviews*, the *Antitrust Law Journal*, *The Review of Industrial Organization*, and *The Encyclopedia of Statistical Sciences*. He has served as a referee for these journals (and others) and the National Science Foundation and has served as an Associate Editor of the *Journal of Econometrics*.

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UNIVERSITY OF CALIFORNIA, BERKELEY
Ph.D., Economics, 1974

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EMPLOYMENT

NATIONAL ECONOMIC RESEARCH ASSOCIATES, INC. (NERA)

1988- Senior Vice President, Office Head, Telecommunications Practice Director. Dr. Taylor has directed many studies applying economic and statistical reasoning to regulatory, antitrust and competitive issues in telecommunications markets. In the area of environmental regulation, he has studied statistical problems associated with measuring the level and rate of change of emissions.

BELL COMMUNICATIONS RESEARCH, INC. (Bellcore)

1983-1988 Division Manager, Economic Analysis, formerly Central Services Organization, formerly American Telephone and Telegraph Company. While at Bellcore, Dr. Taylor performed theoretical and quantitative research focusing on problems raised by the implementation of access charges. His work included design and implementation of demand response forecasting for interstate access demand, quantification of potential bypass liability, design of optimal nonlinear price schedules for access charges and theoretical and quantitative analysis of price cap regulation of access charges.

BELL TELEPHONE LABORATORIES

1975-1983 Member, Technical Staff, Economics Research Center. Performed basic research on theoretical and applied econometrics, focusing on small sample theory, panel data and simultaneous equations systems.

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Fall 1977 Visiting Associate Professor, Department of Economics. Taught graduate courses in econometrics.

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MISCELLANEOUS

1985-1995	Associate Editor, *Journal of Econometrics*, North-Holland Publishing Company.
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Massachusetts Department of Public Utilities (Docket No. DTE 98-15), on behalf of Bell Atlantic - MA: direct testimony regarding the method used to determine wholesale (avoided cost) discount that applies to resold retail services. Filed January 16, 1998.

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Vermont Public Service Board (Docket No. 6167), on behalf of Bell Atlantic, rebuttal testimony regarding reduction of access charges & pricing of new services. Filed May 20, 1999. Supplemental testimony filed May 27, 1999.

Connecticut Department of Public Utility Control (Docket No. 95-06-17RE02), on behalf of The Southern New England Telephone Company, rebuttal testimony regarding local competition and reseller market. Filed June 8, 1999.

Ohio Public Utility Commission (Docket No. 98-1398-TP-AMT), on behalf of Bell Atlantic and GTE, rebuttal testimony supporting the merger of Bell Atlantic and GTE. Filed June 16, 1999.

July, 1999

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
JOINT APPLICATION OF BELL	)	
ATLANTIC CORPORATION AND GTE	)	CASE NO. 99-____
CORPORATION FOR ORDER	)	
AUTHORIZING TRANSFER OF	)	
UTILITY CONTROL	)	

DIRECT TESTIMONY

OF

JEFFREY C. KISSELL

ON BEHALF

OF

GTE CORPORATION

SUBJECT: PRO-COMPETITIVE BENEFITS OF THE MERGER

JULY 9, 1999

DIRECT TESTIMONY OF JEFFREY C. KISSELL

I. Background And Purpose

Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

A. My name is Jeffrey C. Kissell. I am the Vice President of Merger Integration for GTE Corporation. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

Q. PLEASE SUMMARIZE YOUR EDUCATION, PROFESSIONAL BACKGROUND AND EXPERIENCE.

A. I received a bachelor's degree in accounting from St. Francis College in Indiana, and later earned an M.B.A. from Indiana University. I became a Certified Public Accountant in Indiana, and joined GTE Telephone Company of Indiana in 1978 as an internal auditor. I held various regulatory and finance management positions in GTE Midwestern Telephone Operations until 1986, when I was promoted to Director – Telecommunications for GTE Service Corporation ("GTE") in Stamford, Connecticut. In 1988, I was named Director – InterLATA Services for GTE Telephone Operations in Irving, Texas and held that position until 1994, when I was promoted to Assistant Vice President – Marketing Services. In 1995, I became Assistant Vice President – Business Product Management. In this position, I was responsible for the development of marketing programs, marketing analysis, product design, pricing and distribution. I was also part of the original team that, in late 1996, developed GTE's competitive local exchange carrier, or "CLEC," strategy that led to the formation of GTE Communications Corporation ("GTECC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will explain the pro-competitive benefits that result from the merged company (1) entering Louisville within 18 months of the consummation of the merger and (2) becoming a strong competitor in the markets for long distance and Internet services and in the market for packages of telecommunications services. In explaining these benefits, I address various concerns the Commission expressed in its April 14, 1999 order dismissing the Joint Applicants' original merger application (the "April 14 Order"). Specifically, I address the Commissions concern about issues relating to competition, *see* April 14 Order, ¶ 5, and its requirement that the Joint Applicants identify packaged services that will be provided in Kentucky after the merger. *See id.*, ¶ 1.

II. <u>The Merger Will Enhance Competition In The Market For Local Telephone Service</u>

Q. HOW WILL THE MERGER PROMOTE COMPETITION IN LOCAL TELEPHONE MARKETS IN KENTUCKY?

A. The merger will position the merged company to use GTE South's existing Kentucky franchise base and Bell Atlantic's existing customer relationships to compete more effectively out-of-franchise in Kentucky. GTE's Chairman, Charles Lee, testified on September 15, 1998 before the U.S. Senate Antitrust Subcommittee that within 18 months of the consummation of the merger, the merged company will compete in 21 new markets, including Louisville.

Q. HOW DOES THE MERGED COMPANY PLAN TO USE ITS PROPERTIES AND CUSTOMER RELATIONSHIPS TO COMPETE OUT-OF-FRANCHISE IN KENTUCKY?

A. Unlike incumbent long distance companies—such as AT&T, MCI WorldCom and Sprint—that already have a long distance customer base throughout the country to whom they can offer bundled services, GTE and Bell Atlantic will have to build their customer base from almost nothing outside their traditional service areas. One strategy for entering new markets is to build facilities to and offer services to anchor customers, such as large business customers, from which to extend local services to other customers. By combining the scope and scale of GTE's geographic proximity with Bell Atlantic's existing large business relationships, the merged company will have the opportunity to compete in Louisville, as well as other Kentucky markets, much more quickly and effectively than either GTE or Bell Atlantic could without the merger.

Q. WHY CAN'T GTE DEPLOY COMPETITIVE LOCAL EXCHANGE SERVICES WITHOUT BELL ATLANTIC?

A. GTE can and is deploying competitive local exchange service, but expects to speed up the pace and efficiency of its deployment by merging with Bell Atlantic. GTE provides competitive local and long distance services in Kentucky through its subsidiary, GTECC.

GTECC's out-of-franchise strategy, however, has not been as successful as we had hoped. GTECC encountered higher-than-expected costs of delivery associated with basic systems (i.e., order entry, provisioning, billing, and customer care), as well as higher-than-expected acquisition costs for out-of-franchise and near-out-of-franchise customers. GTECC also experienced lower revenues than expected. GTE's lack of brand-name recognition out-of-franchise contributed to these results.

Because of these difficulties and due to GTE's existing in-franchise name brand recognition, GTECC modified its strategy, deciding only to market resale service in-franchise in 1998. GTECC is currently developing a new out-of-franchise facilities-based strategy based on upgrading GTE's existing wireless switches to provide wireline service. However, this new strategy does not involve a broad facilities-based expansion, and GTECC currently plans to enter only the San Francisco market in 1999, where GTE already has a degree of brand-name recognition due to its wireless service.

The merger with Bell Atlantic, however, will give the new company the capability to launch a more rapid and geographically broader local service strategy than either company could undertake on its own. Bell Atlantic's existing large business customer base will allow GTE to compete more effectively for large business customers in Kentucky. These "anchor customers" will provide the scale necessary to justify investments in facilities that are necessary for expansion into other market segments, including the market for residential customers. The new company's combined scale also will provide the resources and business justification to build a national brand rivaling other national providers. This national brand will enable GTE to compete more effectively in those territories.

Q. **PLEASE EXPAND ON HOW THE MERGER AFFECTS GTE'S ABILITY TO ACQUIRE LARGE BUSINESS CUSTOMERS OUT-OF-FRANCHISE.**

A. In early 1998, prior to announcing the merger, GTE extensively studied its competitive strategies in light of rapidly evolving telecommunications technology and market dynamics. I was extensively involved in this project. One of the initial steps in this analysis was to determine the market segments that were best addressed by GTE in light of its capabilities and industry position, and to eliminate other market opportunities that GTE was not well-positioned to address. One possibility that we eliminated from further study early on was that of positioning GTE as a national retailer of voice and data to multinational corporations and large businesses. GTE determined that absent a significant merger or acquisition, pursuing the large business customer segment was not advantageous and unlikely to yield results because GTE does not have strong customer relationships with many of these potential customers. By contrast, there are sizeable incumbents with strong positions with these customers, namely the national interexchange carriers such as AT&T, MCI WorldCom, and Sprint.

Bell Atlantic, however, brings to the table substantial existing customer relationships with many of the Fortune 500 companies headquartered in Bell Atlantic's service region. After the merger, this relationship will give the merged company access to and credibility with decisionmakers in these firms. This access and credibility will allow the merged company to compete for a greater share of these companies' communications expenditures, including out-of-franchise opportunities.

Q. DO MERGER COST SAVINGS INCREASE THE MERGED ENTITY'S ABILITY TO COMPETE?

A. Yes, they do. The cost synergies expected from this merger will allow the new company to lower costs, which will make it a more efficient competitor both in-franchise and out-of-franchise. Also, as prices decline because of new competitors and technologies, the merged company's improved cost position will allow it to respond much more effectively than GTE could on its own. The cost savings also will provide additional funds that the merged company can invest in market expansion and new ventures, where appropriate.

Q. HOW DOES THE INCREASED GEOGRAPHIC SCOPE CREATED BY THE MERGER AFFECT THE MERGED COMPANY'S ABILITY TO COMPETE OUT-OF-FRANCHISE?

A. The geographic scope of the merged entity will give it access to broad promotional vehicles and distribution capabilities, which are impractical or inefficient for either company today. For example, most of GTE's mass media purchases today are local purchases in metropolitan areas in which GTE has a significant presence. These local advertising purchases are not as cost efficient as advertising bought on a national basis, as measured by cost per thousand viewers, readers, or listeners. However, national advertising buys, such as network television, national publications, and national radio programming, are impractical for GTE (or Bell Atlantic) because much of the viewership for these "national" ads would be outside either company's addressable market given that GTE's (and Bell Atlantic's) current addressable markets are geographically limited. However, with the merger and its planned market expansion, these national vehicles become more practical and give the company a platform from which to build national brand-name recognition through more cost-effective advertising.

Similarly, national companies have access to distribution capabilities that are not available to regional and local providers. These include national retailers, equipment manufacturers, and affinity relationships with national businesses and organizations. To utilize these national distribution capabilities, a company must have geographic service capabilities that closely match the geographic capability of the retailer, manufacturer, or affinity partner. For example, Sprint's distribution relationship with Radio Shack is not available to a local or even a regional provider of services. If Radio Shack signs a one carrier deal for all (or even most) of its 7000 retail outlets rather than numerous regional or local deals, it minimizes its costs of administration and service provisioning. By dealing with a national provider of services, Radio Shack can develop national promotions and other advertising, rather than more expensive regional or individual store promotions. Put another way, regional or local distribution channels are less cost effective than a national distribution scheme such as the relationship between Sprint and Radio Shack. After the merger, the combined company can take advantage of its expanded geographic reach and pursue more cost effective national distribution strategies.

III. <u>The Merger Will Enhance Competition In The Markets For Long Distance And Internet Services</u>

Q. PLEASE EXPLAIN HOW THE MERGER WILL SPEED UP THE DEPLOYMENT OF A FOURTH LONG DISTANCE NETWORK.

A. In the wake of the MCI-WorldCom merger, there are now only three major national long distance networks--AT&T, MCI WorldCom and Sprint. New networks are being built by Qwest, IXC and Level 3. GTE controls some of the capacity in the Qwest network and is building a new nationwide fiber network, known as the Global Network Infrastructure ("GNI"), to provide long distance service, Internet backbone service and advanced data services.

As discussed above, GTE's subsidiary, GTECC, provides long distance retail services through its long distance division. GTECC currently purchases its long distance capacity, as well as much of its back office support, from MCI WorldCom. Shifting to facilities-based service rather than reselling MCI WorldCom capacity would reduce GTECC's costs and enable it to compete more effectively against the Big Three in Kentucky and elsewhere. The merger with Bell Atlantic will create additional toll traffic volumes that will ultimately justify the deployment of more switches and facilities, thus allowing it to build and operate a network to compete in Kentucky against the entrenched long distance providers.

Q. HOW WILL THE MERGER ENHANCE COMPETITION FOR THE PROVISION OF INTERNET SERVICES?

A. Internet backbones are the core networks that carry data traffic from private networks and from a host of retail Internet Services Providers ("ISPs"), like America OnLine, Netcom (owned by ICG), CerfNet (owned by TCG and now AT&T), and Earthlink (a partner with Sprint). GTE Internetworking, a GTE subsidiary, operates the fourth largest national data backbone, which is significantly smaller than the three main backbone providers—MCI WorldCom's UUNet, Cable and Wireless (which purchased the data network owned by MCI), and Sprint. Bell Atlantic does not operate an Internet backbone. The merger will expand the customer base to whom GTE Internetworking can market its backbone services, increasing the traffic volumes it handles relative to the other backbones, thereby increasing competition in this important sector. This will produce pro-competitive effects both in and out of GTE South's franchise areas.

Q. **HOW WILL THE MERGER PROMOTE THE DEPLOYMENT OF OTHER NEW, ADVANCED SERVICES.**

A. The merger provides economies of scale that allow the merged company to recover the capital investment required for new, advanced data services faster than GTE or Bell Atlantic could on a stand-alone basis. GTE's wireline and wireless footprint – which defines the customers to whom GTE could market using its existing distribution channels – is spread out across the United States and consists generally of rural and suburban areas. This customer base is not concentrated enough to support the rapid introduction of new, mass-marketed data services that require substantial up-front investments in equipment and facilities. Likewise, the ability to recoup capital expenditures outside this footprint is even lower without customer relationships, brand recognition or marketing channels. The combination of Bell Atlantic and GTE gives the combined company a broader customer base to market its new advanced services, thus better positioning the combined company to make the required capital investments to deploy new, advanced telecommunications services.

Q. **WILL YOU GIVE SOME EXAMPLES OF NEW, ADVANCED SERVICES THAT ARE NOT NOW OFFERED THAT MIGHT BE ECONOMICALLY VIABLE AND AVAILABLE TO KENTUCKY CUSTOMERS IF THE MERGER IS APPROVED?**

A. Yes. Messrs. Griswold and Reed discuss in some detail the CLASS services that will be expanded in Kentucky as a result of the merger. With regard to advanced data services, Cyber-ID is a service that allows customers to direct incoming calls while connected to a dial-up ISP. For example, without Cyber-ID a customer connected to America OnLine via a dial-up connection would be unable to receive calls on that line. With Cyber-ID customers would be informed of an in-bound call attempt by a window that pops up on their computer screen. They would then have the option of routing the call to voice mail, a second line, voice mail, etc.

Universal messaging is another advanced service where the capital investment could be more easily recovered if offered to a broader base of customers. With universal messaging, customers can direct voice, FAX and e-mail messages to a single computer-accessible mailbox.

Deployment of these advanced services will benefit customers both inside and outside GTE South's existing Kentucky franchise territory. The merger provides the merged company with access to a broader customer base from which it can recover the capital investment necessary to deploy these services. Thus, the merger will facilitate deployment of these services, resulting in direct benefits to customers.

IV. <u>The Merger Will Make GTE Better Able To Provide Packaged Services In Kentucky Than It Could Alone</u>

Q. THE APRIL 14 ORDER REQUIRES THE JOINT APPLICANTS TO EXPLAIN WHICH BUNDLED OR PACKAGED SERVICES WILL BE MADE AVAILABLE TO KENTUCKY CONSUMERS AS A RESULT OF THE MERGER. HOW WILL THE MERGER ENHANCE THE MERGED COMPANY'S ABILITY TO OFFER BUNDLED AND PACKAGED SERVICES, AND WHAT KIND OF SERVICES WILL THEY BE?

A. Because the merger will allow the merged company to develop its own facilities-based long distance and Internet services faster than GTE could on its own, ultimately the merger will allow the combined company to offer a full slate of communications services – local, long distance, data, Internet and wireless – in Kentucky and on a national and international basis faster than GTE could on its own. Bell Atlantic and GTE will be able to consolidate their traffic onto a unified national facilities-based network. The merger will allow Bell Atlantic to add GTE's sophisticated data services to its own array of service offerings and to significantly expand the reach of its wireless network. Ultimately, the new company will be able to offer a full slate of communications services on a national scale. Kentuckians will benefit because the merged company will be able to offer these services to consumers in Kentucky.

Q. HAVE BELL ATLANTIC'S AND GTE'S COMPETITORS RECOGNIZED THE IMPORTANCE OF OFFERING BUNDLED TELECOMMUNICATIONS SERVICES?

A. Yes. There can be no dispute that the AT&T, MCI WorldCom, and Sprint conglomerates are believers in the emerging national market for facilities-based bundled service – a market that includes Internet backbone and connectivity services, advanced voice and data services, long distance service, and local telephone service. Each one of the Big Three has announced acquisition after acquisition to fill voids in their facilities-based product offerings and to grow the scale of their existing business. A prime example is the MCI WorldCom merger. Now that this merger has been consummated – and founded on WorldCom's prior acquisitions of UUNet, CompuServe, MFS and Brooks Fiber – MCI WorldCom has launched a national "On-Net" advertising campaign asserting that it alone is able to offer a fully-integrated bundle of Internet, data and voice services over a "wholly owned" and seamless global network.[1]

Likewise, AT&T has acquired or is in the process of acquiring McCaw Cellular, Vanguard Cellular, Teleport Communications Group ("TCG"), Telecommunications, Inc. ("TCI"), and MediaOne, and has announced a $10 billion joint venture with British Telecommunications and a $5 billion deal to purchase IBM Global Networks.

It is no secret that these companies see the ability to package bundles of services as the future of telecommunications – and that they are willing to spend billions of dollars to be able to provide them effectively. As AT&T informed its shareholders in its Annual Report – "Bundles are a big deal." According to Sprint's 1998 Annual Report: "The rules that govern telecommunications are changing radically. Many of the service categories familiar to customers today will soon change or disappear entirely. The time is coming, for instance, when customers will no longer distinguish between local, long distance and wireless companies. Customers will get everything they need from a single source, on a single bill and with a single point of contact."[2] The AT&T conglomerate likewise assured its shareholders that "[w]e're transforming AT&T from a long distance company to an 'any distance' company. From a company that handles mostly

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[1] MCI/WorldCom two-page advertisement, Wall St. J., Nov. 5, 1998, at B18-19; *see also* MCI/WorldCom 12-page advertising supplement, Wall St. J., Oct. 1, 1998, at R6-7 ("With MCI WorldCom On-Net, you get one connection for everything. Instead of separate lines for local, long distance, international voice and data, there's only one network, one contract and one company to take full responsibility. *Somewhere a choir of angels is singing* . . . . No handoffs to other carriers. One network. One contract. One company. Nothing could be simpler. Or more cost-efficient.")(emphasis added).

[2] Sprint 1998 Summary Annual Report (available at www.sprint.com).

voice calls to a company that connects you to information in any form that is useful to you – voice, data and video."[3]

The cable companies in Kentucky have also recognized the importance of bundling. All of GTE's competitors in Lexington – most notably BellSouth, Hyperion and ICG – are currently offering or soon will offer a full bundle of local, long distance and data services to customers. InterMedia offers @Home high speed access to the Internet, as well as digital cable service.

In short, the market for bundled telecommunications services is the wave of the future, and the companies that are able to provide the packages of services that customers want at competitive prices will succeed.

Q. CAN YOU PROVIDE SPECIFIC EXAMPLES OF PACKAGED SERVICES THAT WILL BE AVAILABLE?

A. While I can say that packages of services that would ultimately be provided would combine local, long distance, data, internet and wireless services, it is impossible at this time to provide specific rates, terms and conditions of such service offerings. The merged company will develop specific service offerings after the merger at such time as it develops business plans to enter new markets and lines of business. Indeed, it would be unrealistic to expect GTE and Bell Atlantic to have plotted to the last detail the exact rates, terms and conditions of the service offerings they will provide after the merger. Such in-depth planning is practically impossible before a merger is consummated.

[3] "Straight Talk," AT&T 1998 Annual Report, Letter to Shareowners from C. Michael Armstrong, Chairman and CEO.

Nevertheless, it is possible to give a clear idea of the packages of services the merged company will provide by examining the limited packages of service GTECC already provides in Kentucky under the terms of GTECC Kentucky P.S.C. Tariff No. 2. GTECC provides Total Bill Discount Service to customers who subscribe to GTECC's local and interexchange services, as well as to customers who receive GTECC's Business Flat Rate Service, Centrex, ISDN and Private Line services. When a customer buys Total Bill Discount Service for one year, the customer will receive a discount ranging from 10 to 15% on a range of telecommunications services – local, intraLATA and interLATA interexchange service, cellular, paging, Internet and voice mail. Alternatively, business customers may purchase Package 1-A, which provides them with flat rate local service for 1 business line, 200 minutes of interexchange service, and access to certain enhanced services such as Call Waiting and Call Forwarding, all at favorable rates and discounts as compared to how the business customer might purchase such services separately. Business customers can have access to even more favorable rates by purchasing Package 1-B, which is the same as Package 1-A except that it provides flat rate local service for 2 to 9 business lines and 600 minutes of interexchange service.

The Joint Applicants expect that packaged services offered in Kentucky by the merged company will, in general, be similar to those described above – that is, the merged company will offer a full range of telecommunications services at competitive prices by combining service offerings and discounts on certain services. Mr. Bone also discusses certain packages of services currently offered by Bell Atlantic in its territory, and these packages may provide additional models for packages of services in Kentucky.

Q. THE MERGER ORDER REQUIRES THE JOINT APPLICANTS TO EXPLAIN WHY GTE CANNOT OFFER SUCH PACKAGED SERVICES ALONE. DON'T THE SERVICES YOU DESCRIBE INDICATE THAT GTE CAN OFFER PACKAGED SERVICES ALONE?

A. No. Although GTECC believes it offers an attractive package of services to potential business customers, it offers both local and long distance service primarily on a resale basis. Moreover, to the extent GTECC's Total Bill Discount Service applies to Internet, cellular and paging services, again, GTECC is acting as a reseller. Although GTE believes that it can gain some market share in this manner, GTECC's ability to offer flexible packages at competitive prices is necessarily constrained by the fact that it is not offering these services over its own facilities. With the merger, however, the merged company will be better able to develop its own long distance and Internet facilities (as I described above) as well as deploy its own facilities in Kentucky markets. Thus, rather than resell other carriers' services, the merged company will be able to develop and deploy its own brand of packaged services, ranging from basic local telephone service to advanced data services and cellular service.

Clearly, GTE cannot achieve this level of facilities-based competition on its own. GTE wants to offer a full package of services in as many markets as it can reach but, as I explained above, it has found the cost of entering new markets using its original business plans to be higher than it anticipated. Accordingly, as I also explained, GTE scaled back its expansion into new markets significantly, and is only originating significant new services in San Francisco. While GTE's plans to build-out the GNI are proceeding, completing the GNI and deploying points of presence over a broad geographic range will take more time than it would if GTE merged with Bell Atlantic. Accordingly, while it is theoretically possible that GTE could offer full bundles of local, long distance, data, Internet and wireless services to its current markets in Kentucky, and also expand into new markets in Kentucky, it is highly unlikely that GTE will do so in the foreseeable future without the merger. This fact should not be surprising – the costs of deploying packaged services on a broad basis, and certainly across the 28 states GTE serves, are considerable. All of the companies I mentioned above are merging and engaging in other transactions in order to accelerate their development of a full range of telecommunications services so they can expeditiously enter the market and begin providing quality services to customers. So, too, are GTE and Bell Atlantic.

Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	)))))	CASE NO. 99-____

DIRECT TESTIMONY

OF

JOHN PETERSON

ON BEHALF

OF

GTE CORPORATION

SUBJECT: IMPACT OF THE MERGER ON CARRIER-TO-CARRIER ACTIVITIES

JULY 9, 1999

DIRECT TESTIMONY OF JOHN PETERSON

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is John Peterson and I am Director – Wholesale Contract Compliance for GTE Network Services. My business address is 600 Hidden Ridge Drive, Irving, Texas 75038.

Q. PLEASE DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE.

A. I received a Bachelor of Science Degree in Business Administration from the University of Nebraska in 1976 and a Masters Degree in Business Administration from Xavier University in 1984. I began my GTE career in January, 1977 and held a variety of assignments in Internal Auditing, General Accounting, Rate Case Planning, Intercompany Separations Administration, and Access Charge Compensation Policy. Beginning in September, 1984 and for the following ten years, I held director level positions in Business Relations, Revenue External Affairs, and Governmental Affairs for GTE North Incorporated. Responsibilities in these positions included advocacy of the Company's business positions to state commissions, industry participants, and legislative representatives, as well as negotiation of agreements regarding state and local compensation and intercarrier settlements. In November, 1994, I joined GTE Telephone Operations Headquarters first as National Manager of Industry Affairs and then in April, 1996, I became Manager -- Industry Compensation. In this position, I was responsible for negotiating interconnection agreements with new entrants in the local exchange market as required under Section 251 of the Telecommunications Act of 1996 (the "1996 Act"). These agreements covered such areas as local interconnection, purchase of services for resale, sale of unbundled network elements, collocation, and other aspects of local competition. I had primary responsibility for negotiating such interconnection issues with AT&T on a national basis, and negotiating state specific interconnection requests for the Central Area of the GTE's operating areas. I assumed my present position in January, 1997.

Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT POSITION?

A. I am responsible for managing the implementation of agreements between GTE's operating companies and competitive local exchange carriers ("CLECs") under the 1996 Act.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony responds in part to the concerns regarding competition expressed by the Commission in its April 14 order dismissing the original application by the Joint Applicants (the "April 14 Order"). Specifically, my testimony explains how GTE has opened its markets in Kentucky and around the country, showing why the merger will have no consequence on "competition for telecommunications services in Kentucky." April 14 Order, ¶ 5. The 1996 Act requires GTE to facilitate entry into its local exchange markets by, among other things, offering wholesale services and network elements at just and reasonable rates on non-discriminatory terms. GTE is complying with these requirements and will continue to do so after the merger. The merger does not change any of these requirements, nor will it eliminate the numerous interconnection agreements currently binding on GTE South.

Q. HOW DOES YOUR TESTIMONY RELATE TO OTHER TESTIMONY FILED BY THE JOINT APPLICANTS?

A. Dr. Taylor explains why the merger will not have an anticompetitive effect in Kentucky and will, in fact, result in pro-competitive benefits. Mr. Kissell describes the pro-competitive benefits in the markets for local, long distance, Internet and packaged services that will result from the merger. My testimony focuses on what GTE has already done to open its markets, and explains why GTE's market opening efforts will continue after the merger.

Q. WHAT HAS GTE DONE TO OPEN ITS MARKETS?

A. As of June 30, 1999, GTE has entered into 802 approved interconnection agreements across GTE's 28 states. An additional 132 agreements have been finalized between GTE and various CLECs and are either pending or will be filed for approval with state public utility commissions. Of these 934 effective and pending interconnection agreements, over 95 percent have been negotiated without the need for state commission arbitration.

Q. HOW HAS GTE OPENED ITS MARKETS IN KENTUCKY?

A. In Kentucky, GTE has 47 interconnection agreements that are in effect in Kentucky. Twenty-eight of these agreements are with CLECs, one is with an ILEC, and the remaining 18 are with wireless carriers. Moreover, two agreements are currently pending approval from the Commission. Under § 252(i) of the Act, the terms of the Commission-approved agreements are available to any new entrant.

Q. DOES THE NUMBER OF INTERCONNECTION AGREEMENTS RELIABLY INDICATE THE LEVEL OF LOCAL COMPETITION IN GTE'S EXCHANGES?

A. The number of interconnection agreements clearly shows that GTE has not prevented CLECs from obtaining the agreements that they need to resell services, purchase unbundled network elements, or exchange traffic. Moreover, it indicates that new entrants have a large number of approved interconnection agreements from which they can draw favorable terms and conditions. Thus, the number of interconnection agreements shows that the preconditions for competitive entry have been established. The number of interconnection agreements is also a reliable indicator of the potential for competition to develop in a given market, and it is one of the indicators I use in determining the amount of interconnection-related activity GTE can expect in a given state.

However, it should be noted that interconnection agreements, as well as the number of unbundled or resold lines, gives only a partial indication of how open a market might be, given that carriers are also entering by deploying their own facilities, and by using special access. For example, as Dr. Taylor notes, there are already a significant number of facilities-based competitors in the Lexington market who are viable, strong competitors – companies such as BellSouth, Hyperion, and ICG. These competitive access providers and CLECs can serve large, medium and small business customers, as well as residential customers, using their own facilities, thus totally bypassing GTE as a wholesale provider.

In the very near future, competition from cable providers will undoubtedly become an alternative to the wireline telephone systems being deployed today. Intermedia, which holds a majority stake in Lexington's cable service provider, not only provides cable television service, but also provides access to the Internet via high-speed cable modems, as well as transport for CLECs. It also plans to offer local service in 2000. Entry by cable providers into the data and telephone service markets is yet another example of facilities-based bypass.

Thus, while the number of interconnection agreements indicates that GTE has met its obligations in opening its local markets to competition, it does not indicate the full extent of competition in Kentucky, or how the competitors are likely to expand in the future.

Q. **WHAT ELSE HAS GTE DONE TO ENSURE THAT ITS MARKETS ARE OPEN TO NEW ENTRANTS?**

A. GTE has made a significant capital and human resource commitment to opening its local markets. GTE has spent approximately $281 million, opened three local wholesale ordering centers, and employed more than 500 people to open its local markets. GTE has also established the Wholesale Internet Service Engine ("WISE"), a web-based interface that simplifies and expedites service ordering and access to operations support systems ("OSS"). Thus, GTE's efforts to open its markets have extended beyond negotiating interconnection agreements and embraced pro-active measures to facilitate CLEC entry.

Q. **HAS GTE TAKEN ANY STEPS TO ASSIST ITS CLEC CUSTOMERS IN USING ITS SYSTEMS OR ORDERING SERVICES?**

A. Yes, it has. Indeed, my job is to make sure that these customers understand the assistance available to them. For example, we provide our new CLEC customers with a comprehensive introductory package of all the forms and information the CLEC needs to begin conducting business with GTE. This package includes, but is not limited to, forms for Tax Exemption, Electronic Ordering System Request, Blanket Letter of Authorization and CLEC Profile. In addition, the package provides information about the GTE Support Website, which is a central source of information on how to do business with GTE. The package also provides information as to all of the key contacts in the National CLEC Ordering Consultant Center and Ordering Centers, as well as the name of the CLEC's Account Manager.

Q. DOES GTE PROVIDE CONTINUING SUPPORT FOR CLECS ONCE THEY ARE IN OPERATION?

A. Yes. In April, 1998, GTE launched its Internet-based CLEC Guide, also known as the CLEC Operating Support System ("COSS"). The CLEC Guide, and our Wholesale Internet Service Engine ordering system that I discussed earlier, can be found by simply accessing www.gte.com/wise.

The CLEC Guide contains detailed information on processes and procedures that are important to CLECs, including pre-ordering and ordering procedures, directory procedures, repair procedures and local number portability service offerings. The web-site also contains the descriptions and definitions of GTE's complex products, along with Data Gathering Forms and instructions for ordering GTE's complex products. For some of our simpler products, templates are available for Local Service Requests ("LSRs"), making it easier for CLECs to initiate service orders.

The site also contains two types of web-based training. The first type of web-based training is a training guide. This guide is designed specifically with reference to the GTE Customer Service Record, and assists the CLEC in reading the Customer Service Records they will receive from GTE. The second (and much more extensive) type of web-based training is interactive training for the CLEC on LSR ordering processes and data gathering form development. This training is free to all CLECs, and allows the CLEC to train individual service order representatives as needed. GTE has expended an enormous amount of time and effort to provide these training products, which are among the best available to CLECs.

The website also contains the GTE Business Rules, which are based upon national Ordering and Billing Forum guidelines. Along with the rules there is an explanation of changes between Local Service Ordering Guide versions, descriptions of forms and field names, and copies of the LSR forms for downloading.

In order to keep CLECs informed of changes that may impact them or their service to end users, we have several electronic mail or e-mail lists. The CLEC may add or delete their name from an e-mail notification list that informs the CLEC when changes are made. These lists include notification for COSS Web Site Changes, LSR modifications, Business Rule changes and CLEC Electronic Interface Alerts. We are constantly striving to improve the information we provide to CLECs, and have an upcoming addition to the website regarding CLEC e-mail notification lists for GTE network outages.

Within GTE, we have also established Integration Teams, which provide on-site CLEC assistance. An Integration Team provides on-site visits or conference call help, customized for each CLEC. An Integration Team is assigned to specific CLECs, and learns the needs and product offerings for each CLEC doing business with GTE. As such, it can provide site-specific help to any CLEC having difficulty with order processing. The goal of the team is to aid the CLEC in processing error free LSR orders on a timely basis.

GTE has also established the National CLEC Ordering Consultant Center, commonly referred to as the CLEC Help Desk, which provides answers to LSR ordering questions. This CLEC Help Desk is available Monday through Friday, 8:00 a.m. to 5:00 p.m., Central Standard Time. This service is free to every CLEC.

Q. **HAVE GTE'S PROCESSES FOR HELPING CLECS BEEN SUCCESSFUL?**

A. Yes. We are able to measure our success by the number of times the website has been accessed, and as of April 30, 1999 there have been 917,558 hits on the website. That is an average of 4,170 hits per day. Obviously, GTE's CLEC customers are making use of this tool, and GTE anticipates they will make increasing use of it in the future.

We also measure our success by the number of times we contact our customers. The Integration Team has conducted 25 face-to-face meetings already this year. Our HELP Desk receives an average of 1,600 calls a month. The HELP Desk utilizes an on-line survey, which the CLECs can provide feedback on the performance of the HELP Desk. Also, the amount of training we provide to the

CLECs is a very good indicator of our success. To date, there have been 111 user sessions on web-based training since this capability was first made available earlier this year.

Q. HOW DOES THIS EVIDENCE THAT GTE HAS OPENED ITS MARKETS AND FACILITATES CLEC ENTRY RELATE TO THE COMMISSION'S CONCERNS?

A. In the April 14 Order, the Commission stated that it wanted the Joint Applicants to address the "consequences the proposed merger will have on competition in telecommunication services in Kentucky." Dr. Taylor addresses questions of market power in greater detail in his testimony. My testimony shows clearly that competitors can enter GTE's markets *today* – that is, I have demonstrated that any CLEC who wants to provide services in any of GTE's exchanges can do so. Thus, the merger will do nothing to impede this development and indeed can have no negative impact on competition in Kentucky – competitors will continue to operate and grow regardless of the merger.

Q. CAN YOU EXPLAIN IN GREATER DETAIL WHY THE MERGER WILL NOT IMPEDE THE DEVELOPMENT OF COMPETITION?

A. Again, Dr. Taylor addresses these issues by analyzing the market and the likely impact of the merger. From my perspective, which focuses on GTE's processes before and after the merger, the merger will not impede the development of competition for three reasons.

First, GTE's efforts to facilitate market entry will continue after the merger. Because the merger is only a parent company merger and, as Mr. Blanchard explains, will not result in operational consolidation, all of the current programs GTE has put into place will continue.

Second, the merged company and its operating subsidiaries will continue to be subject to the market opening requirements of the Act and of the Commonwealth of Kentucky. Specifically, GTE will continue to be obligated to provide unbundled network elements, resold services, and all the other products and services required by Section 251 of the Act, and will continue to be obligated to do so on a nondiscriminatory basis. Nothing about the merger will diminish these obligations, or the regulatory oversight that enforces them.

Third, GTE's interconnection agreements will continue in effect according to their various terms and conditions after the merger. These agreements set forth, in considerable detail, the services GTE provides to CLECs, and there is nothing about the merger or its subsequent implementation that would eliminate or modify in any way these agreements.

Q. IF THERE ARE CHANGES TO GTE'S CURRENT CLEC PROCESSES, HOW WILL THESE CHANGES IMPACT CLECS?

A. Today, most of GTE's wholesale processes are subject to change management processes, whereby CLECs are notified of changes to GTE's systems and are given the opportunity to have input into the suggested changes. Thus, there are processes currently in place to ensure that changes to GTE's systems cause as little disruption as possible to the normal course of business. These processes will continue in place after the merger, and any changes caused by organizational changes in GTE today or in the merged company after the merger will be subject to them.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	)))))	CASE NO. 99-____

DIRECT TESTIMONY OF

PAUL R. SHUELL

ON BEHALF

OF

GTE CORPORATION

SUBJECT: GTE/BELL ATLANTIC MERGER COSTS AND SAVINGS

JULY 9, 1999

DIRECT TESTIMONY OF PAUL R. SHUELL

I. Background and Purpose

Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.

A. My name is Paul R. Shuell. I am Vice President and Controller for GTE Corporation ("GTE"). My business address is 1255 Corporate Drive, Irving, Texas.

Q. WHAT ARE THE RESPONSIBILITIES OF YOUR CURRENT POSITION?

A. I am responsible for all GTE accounting and public financial reporting, auditing, and other typical controller functions.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I received a Bachelor of Science degree in accounting from the University of Connecticut and a Masters of Business Administration degree from the University of Bridgeport and a CPA certicifate from the State of Connecticut. In 1973, I began my career with GTE as a staff accountant, assuming increasing responsibilities until my appointment as Director - Consolidations and Financial Reporting in 1980. In 1981, I was named Director - Internal Auditing for GTE Southeast, becoming controller of the company two years later. In 1985, I was appointed Controller for GTE Sprint, returning to GTE Service Corporation the following year as Director - Financial Analysis. In 1987, I was named Controller for GTE California and became Assistant Vice President- Budgets, Results and

Analysis for GTE Telephone Operations in 1988. I was appointed Controller for GTE West Area in 1989, and West Area Vice President- Finance in 1990. I was named Assistant Controller- Budgets, Plans and Analysis in October 1993, and was appointed to my current position in April 1998.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present estimates of corporate level cost savings resulting from the merger of GTE and Bell Atlantic Corporation ("Bell Atlantic"). I will describe estimates prepared prior to the announcement of the proposed merger, and a more detailed quantification prepared after the announcement. I will also present the implementation costs necessary to achieve merger savings. Mr. Shore explains how these savings and costs will be allocated to GTE's Kentucky Operations.

II. Pre-Merger Announcement Savings Estimates

Q. WHO PREPARED THE SAVINGS ESTIMATES PRIOR TO THE ANNOUNCEMENT OF THE MERGER?

A. Prior to the announcement of the proposed merger, representatives from both Bell Atlantic and GTE, working independently and jointly, prepared preliminary estimates of opportunities to realize cost, revenue and capital synergies. I helped in determining and quantifying these projected opportunities. The purpose of this activity was to inform the senior executives of GTE and Bell Atlantic of the projected synergies of the merger. In addition, senior executives of GTE and Bell Atlantic used these estimates in connection with the public announcement of the merger and its potential benefits.

Q. WHEN DID YOU MAKE THE ESTIMATES?

A. I was first told of the merger discussions approximately nine days before the merger was publicly announced. Several days before the merger was publicly announced, I met with a select group of Bell Atlantic employees to conduct financial due diligence. As part of that process, we discussed the opportunities to realize synergies through the merger. We immediately recognized the companies would need to present merger synergy projections in connection with their announcement of the transaction, and that the credibility of those projections would have an important influence on investors' evaluation of the merger.

Q. DID YOU WORK WITH OR USE ESTIMATES PREPARED BY BELL ATLANTIC?

A. Yes. Days before I was asked to prepare estimates, Bell Atlantic executives had begun to analyze these merger synergies. Bell Atlantic had recently merged with NYNEX, and thus was familiar with the kinds of merger synergy opportunities that might be available in such a transaction. Because of this familiarity, Bell Atlantic took the initial role in developing the expected synergies. After receiving Bell Atlantic's work on synergies, I conducted a further analysis of my own.

Q. PLEASE DESCRIBE THE PROCESS YOU FOLLOWED TO DEVELOP YOUR MERGER SAVINGS ESTIMATES.

A. In considering the opportunities for cost savings, I consulted the following sources:

- my general understanding of the specific functional areas of the companies' business activities, their overlaps, and the logical opportunities for realization of additional savings;
- benchmarking data regarding cost savings projected in other, comparable transactions, such as Bell Atlantic-NYNEX and SBC-Pacific Telesis; and
- other public sources regarding various telephone companies' relative expense rates for certain functions.

Because of the critical need to maintain the confidentiality of the negotiations, however, I was not at liberty to discuss my estimates or rationale with individuals within the various business units.

My initial analysis produced merger cost savings of approximately $2 billion and capital synergies of approximately $0.5 billion, before consideration of merger transaction or implementation costs. My aggregate estimate was based in significant part on my consideration of savings projected in other recent mergers. In addition, I generally examined a number of functional areas in which cost savings might be realized, to test the achievability of the aggregate savings estimate. I identified significant opportunities for cost savings in the following areas: general and administrative ("G&A") expenses; information systems; product development and advertising; long distance transport; wireless; procurement; network planning; and research and development.

Q. DID YOU CONSIDER ANY GTE COST REDUCTION MEASURES THAT EXISTED PRIOR TO THE MERGER ANNOUNCEMENT?

A. Yes. I also considered cost savings that would be realized from cost reduction measures that GTE had planned prior to the merger. I excluded these previously planned cost savings from the computation of the merger synergies because they would not be attributable to the merger itself. I concluded that the previously planned cost reduction efforts would not affect any of the functional areas studied, except for G&A and information systems expenses. Accordingly, I reduced the estimated cost savings for these expenses to account for the previously planned reductions.

Q. HOW WERE THE RESULTS OF YOUR ANALYSIS USED BY GTE AND BELL ATLANTIC?

A. I presented the results of my analysis to senior executives of GTE, and I understand that my work was also provided to Bell Atlantic executives. In connection with the announcement of the merger, Ivan Seidenberg, Vice Chairman, President and Chief Executive Officer of Bell Atlantic, presented an estimate of merger cost savings of $2 billion by the time the merger is fully implemented. I understand that Mr. Seidenberg relied upon my work, as well as the work of Bell Atlantic personnel, in making that $2 billion estimate.

III. Post- Merger Announcement Savings Background

Q. WHO DEVELOPED THE SAVINGS ESTIMATE PERFORMED AFTER THE MERGER ANNOUNCEMENT?

A. Subsequent to the public announcement of the merger, the Chief Executive Officers of GTE and Bell Atlantic directed the preparation of a more detailed analysis of the cost and revenue synergies that would result from the merger. Six individuals, three from GTE and three from Bell Atlantic, were assigned to this task. This group consisted of senior executives with expertise in a variety of functional areas and with experience in consolidations and merger savings estimation. For example, some of the Bell Atlantic executives selected for this team were those with experience in estimating the synergies from the Bell Atlantic-NYNEX merger and in ensuring that those synergies were in fact achieved. The group completed its work on August 21, 1998, and presented their work to the Chief Executives on that date, followed by a formal presentation by the group on September 9, 1998. I refer to their work as the "August 21 Analysis," and of the group that completed this work as the "August 21 Group." The work of the August 21 Group confirmed the estimate of $2 billion in expense savings and $0.5 billion in capital synergies that was made in connection with the announcement of the merger.

Q. DID THE AUGUST 21 GROUP CONSULT WITH YOU IN PERFORMING THEIR ESTIMATE?

A. Yes. The August 21 Group spoke with me and others who had been involved in the pre-merger synergy estimates, and had access to the materials developed in that pre-merger process. The basis of the August 21 Analysis was the pre-merger estimates used in the merger announcement. The August 21 Group also consulted with various business unit personnel to obtain additional information regarding current and projected cost levels, opportunities for savings by virtue of the merger, and to validate the Group's estimates.

Q. WHY WAS THE AUGUST 21 ANALYSIS PERFORMED?

A. The August 21 Analysis served two purposes. First, both companies wished to analyze in greater depth the preliminary synergy estimates developed before the merger was announced. The companies believed that additional analysis of the merger synergies would be beneficial to securities analysts and investors. The synergy information that the companies provided in connection with the announcement of the merger was necessarily preliminary and general.

Second, the additional analysis provided a starting point for the work of the Merger Integration Teams. On August 13, 1998, the Chief Executives of GTE and Bell Atlantic announced the formation of eight Merger Integration Teams ("MITs") to develop specific proposals for the implementation of the merger at an operational level. The MITs will propose modifications in business practices, elimination of duplicative functions, and other changes that will generate cost savings and improve business practices. The August 21 Analysis will serve as a starting point for that work.

Q. IS THE MERGER SAVINGS AMOUNT CALCULATED BY THE AUGUST 21 GROUP A REASONABLE ESTIMATE?

A. Yes, but it is important to understand that it is only an estimate. The August 21 Analysis reflects a reasonable projection of the cost savings from the merger. It is not, of course, based on actual savings realized by the company. Instead, it is a good-faith estimate by company managers familiar with functional areas of the two companies, and it is consistent with the estimate provided at the time the merger was announced and with external benchmarks. Although it does not reflect a detailed, operational plan for implementation of the merger, the August 21 Analysis is the most complete, informed and reasonable forecast now available to determine net merger savings allocable to Kentucky.

It is not possible to derive precise numbers for merger savings at this time. Indeed, it is not possible to determine those actual savings until they occur. After they occur, however, the actual savings will flow through to the books and records of GTE South-Kentucky in the normal course of business. In the case of GTE South-Kentucky, for example, the savings will be reflected in the quarterly and annual filings that are made to this Commission; those filings detail the actual financial figures for GTE South's Kentucky operations.

IV. Post- Merger Announcement Savings Methodology

A. General Methodology

Q. PLEASE DESCRIBE THE METHODOLOGY FOR THE AUGUST 21 ANALYSIS.

A. The August 21 Analysis developed an estimate of revenue, expense, and capital synergies for a combined GTE-Bell Atlantic that encompasses all business units. The August 21 Analysis identified expense and capital synergies directly attributable to the companies' incumbent local exchange carrier ("ILEC") regulated operations, as well as additional savings of G&A expenses, some of which are attributable to ILEC operations.

Q. WHAT GENERAL TYPES OF COST SAVINGS WERE IDENTIFIED?

A. The August 21 Analysis identifies three general types of cost savings opportunities: (1) elimination of redundant functions, (2) increased economies of scale, and (3) adoption of the most efficient business practices or processes followed by each company, referred to as "best practices." Cost savings from redundant functions will be realized as staff, systems or assets that are used to perform the same function separately for each company are consolidated and inefficient duplication is eliminated. In addition, economies of scale will produce lower per unit fixed costs and greater volume discounts in connection with the procurement process.

Q. HOW WILL THE IMPLEMENTATION OF BEST PRACTICES PRODUCE MERGER SAVINGS?

A. Where one of the companies has superior existing practices for a particular function, the other company would implement such practices, thereby reducing the costs of the merged entity. In addition to producing cost savings, best practices can result in improved service quality.

Q. HOW WERE COST SAVINGS QUANTIFIED?

A. The combined 1998 budgets of GTE and Bell Atlantic, organized by functional category, were used as a base to quantify merger-related savings. Where necessary, individual company budget dollars were reclassified so that costs were consistent by functional category. For example, all information technology expenses were included in one category, rather than in several categories. This allowed for a more accurate estimation of savings opportunities by functional category. The August 21 Group then examined each functional category in order to determine how the cost savings opportunities noted above would apply to that category. Based on their collective judgment and in consultation with other company executives where necessary, the August 21 Group determined the percentage of the expenses in each functional category that would be saved as a result of the merger. Cost savings were quantified by applying the percentage savings estimates to the two companies' combined 1998 budgets for the functional category. Schedule A.1 shows the 1998 budget cost base and the percentage savings estimates by functional category. The savings opportunities that are captured by the percentage savings estimates are discussed by functional category below.

Q. WHAT PORTION OF THESE COST SAVINGS ARE RELEVANT TO THIS PROCEEDING?

A. The savings associated with GTE's regulated ILEC operations in Kentucky are relevant to this proceeding. The August 21 Analysis, however, viewed the companies on a combined basis, and did not attempt to attribute specific cost savings opportunities to GTE or Bell Atlantic separately. As a first step, in determining total savings associated with regulated ILEC operations must be allocated between Bell Atlantic and GTE. In addition, a substantial portion of the synergies estimated by the August 21 Analysis are attributable to lines of business that are unrelated to the provision of services by ILECs, such as wireless services; long-distance services; data products; Internet access, hosting and data transport services; video; and out-of-franchise local exchange services. Savings related to these services are not associated with regulated telephone operations and should therefore be excluded from the analysis. Thus, Mr. Shore describes in his testimony the methodology he used to complete the analysis by allocating cost savings between the companies and ultimately to GTE regulated intrastate services in Kentucky.

Q. DID THE AUGUST 21 ANALYSIS CONSIDER HOW LONG IT MIGHT TAKE TO ACHIEVE MERGER SAVINGS?

A. The August 21 Analysis concluded that it would take three years to achieve the full amount of the savings. This estimate of three years to full realization of cost savings was based on Bell Atlantic's recent experience in connection with the NYNEX merger, among other factors. It is estimated that only one-third of the potentially available expense savings could be achieved in the first year following the merger. Because all the available cost savings could be achieved within three years, the August 21 Analysis estimated savings only through the third year.

Q. DID THE AUGUST 21 ANALYSIS CONSIDER IMPLEMENTATION COSTS?

A. The August 21 Group recognized that the cost savings would be reduced by total merger costs, consisting of the merger transaction costs and the merger implementation costs. Given time and resource constraints, however, the August 21 Analysis did not include any forecasts of merger transaction or merger implementation costs. Below, I explain the total merger cost estimates that I developed subsequent to the completion of the August 21 Analysis.

B. Telephone Operations Savings

Q. PLEASE SUMMARIZE THE MERGER SAVINGS OPPORTUNITIES ASSOCIATED WITH TELEPHONE OPERATIONS.

A. The August 21 Analysis identified seven areas of cost savings opportunities for the companies' telephone operations: Information Systems; Consumer and Business; Network/Customer Service; Procurement; Product Management and Advertising; Provision of Wholesale Services; and Research and Development. In the aggregate, and before offsets for integration costs, the August 21 Analysis concluded that the companies could achieve $900 million in expense savings, and an additional $350 million in capital savings, in their telephone operations in the third year after the merger.

Q. PLEASE DISCUSS SAVINGS IN THE INFORMATION SYSTEMS AREA.

A. The Information Systems category includes costs for programming, system maintenance and development, and data centers. The primary opportunities within this area relate to the development of new systems. The combined companies could avoid the duplicative costs of developing major parallel systems. Also, the use of one system by the larger merged entity could reduce costs through scale economies. After reviewing the foregoing opportunities for savings, the August 21 Group's expert judgment was that the merged entity would save 25 percent of the information systems development expenses that each firm would have incurred separately. Based on the firms' budget for information systems development, the Group concluded that the merger would produce savings of approximately $150 million by the third year after the merger closes.

Other information systems savings would result from the elimination of minor duplicative systems for specific functions within comparable business units. These would include, for example, duplicative systems used by the law departments for case tracking and systems used by the human resources groups for employee tracking. Elimination of these duplicative systems will permit the companies to avoid ongoing expenses of maintaining separate systems. Based on these savings opportunities, the August 21 Group estimated that 10 percent of the cost of information systems maintenance and services would be saved, resulting in expense savings of $100 million.

Q. PLEASE DISCUSS SAVINGS IN THE CONSUMER AND BUSINESS AREA.

A. The August 21 Analysis concluded that the merged company could realize cost savings in consumer and business customer contact functions. These functions include customer contact call centers, operator services and directory assistance, national customer support centers, retail outlets and business sales. The primary savings opportunity in this area derives from the sharing of best practices in processing inbound calls to customer contact centers and improved scale economies. After reviewing the foregoing opportunities for savings, the August 21 Group's expert judgment was that 5 percent of Consumer and Business expenses could be saved, resulting in savings of $135 million three years after the merger closes.

Q. PLEASE DISCUSS SAVINGS IN THE NETWORK/CUSTOMER SERVICE AREA.

A. This category includes costs related to the operation of the network, such as network planning, repair and maintenance, testing, and monitoring. Costs savings opportunities in this category include consolidation and reductions in retail inventories, and implementation of best practices for network monitoring and provisioning. Though this functional category represents the largest base of budgeted dollars, because of the lack of geographic overlap in GTE and Bell Atlantic service areas the August 21 Group determined that 2 percent of budgeted dollars, or $140 million, would be saved.

Q. PLEASE DISCUSS SAVINGS IN THE PROCUREMENT AREA.

A. The August 21 Analysis concluded that significant savings could be achieved by combining the companies' procurement functions. These opportunities would reduce both expense and capital spending. The identified savings opportunities would include the use of the best of the two company's contracts for the procurement of similar items; reductions in inventories; and consolidation of the companies' procurement organizations. The Analysis also concluded that there were some opportunities to realize savings through additional volume discounts, particularly with respect to outside plant materials and software contracts. Both companies, however, are already large, and the opportunities for additional volume discounts are limited. The August 21 Group's expert judgment was that approximately 3 percent, or $200 million, of expensed procurement purchases would be saved by the merged company as a result of the opportunities identified.

Q. PLEASE DISCUSS SAVINGS IN THE PRODUCT MANAGEMENT AND ADVERTISING AREA.

A. Product management refers to the administration of product and service marketing, including pricing, competitive analysis, demand forecasting and provisioning. The two companies have redundant product management functions to support similar services. The merger will allow the consolidation of these functions and improved scale economies. The August 21 Analysis also identified modest opportunities for savings associated with brand advertising, particularly national advertising and sponsorships of national events. Offsetting costs required to launch a new national brand for the merged company were not included in this analysis. Because of the minimal overlap of the companies' service areas, the Analysis did not identify any material savings with respect to product advertising. After reviewing the savings opportunities, the Group estimated that 12 percent, or $110 million, of the expenses that each firm would have incurred separately would be saved through consolidation and improved scale.

Q. PLEASE DISCUSS SAVINGS IN THE WHOLESALE SERVICES AREA.

A. The August 21 Analysis concluded that modest savings could be achieved in the provision of wholesale services by the incumbent local exchange carriers to competitive local carriers ("CLECs"). These savings could be realized through the consolidation of the two companies' organizations, which will allow them to meet the needs of a substantially overlapping set of CLECs through a unified group of account managers. In addition, implementation of best practices related to customer ordering and provisioning could produce savings. Based on the foregoing opportunities, the August 21 Group estimated that, three years after the merger close, 5 percent of the costs associated with wholesale services would be saved. This would produce savings of approximately $15 million three years after the merger closes.

Q. PLEASE DISCUSS SAVINGS IN THE RESEARCH AND DEVELOPMENT AREA.

A. The August 21 Analysis identified opportunities for cost savings resulting from elimination of duplicative research and development expenses. GTE and Bell Atlantic would have pursued similar research and development projects separately, but for the merger. The merger creates the ability to eliminate these redundant expenses. The August 21 Group's expert judgment was that the merged company could save approximately 20 percent of the expenses in this category. The Group concluded that third year savings from these opportunities would be approximately $50 million.

C. G&A Expense Savings

Q. WHAT TYPES OF SAVINGS RELATED TO G&A EXPENSE WERE IDENTIFIED?

A. The August 21 Analysis separately identified savings opportunities in the area of G&A expenses. The August 21 Team examined the following organizations for possible savings: finance, planning and treasury; regulatory, external affairs, and legal; human resources; and network staff support. Both GTE and Bell Atlantic incur substantial costs for these activities at the corporate center level, which are in turn allocated to the various lines of business in the manner described in Mr. Shore's testimony.

The most significant savings in this area would result from the consolidation of duplicative G&A functions between the companies. The realization of such G&A savings is typical in mergers of large firms such as GTE and Bell Atlantic. In addition, the August 21 Analysis concluded that additional savings could be realized through the implementation of common systems and processes for functions such as payroll and accounts payable. Finally, the Analysis identified additional savings through adoption of each company's best practices in areas such as the budgeting, accounting, cash management, and audit fees. In total, the August 21 Group estimated that approximately 15 percent of the general and administrative expenses that each firm would have incurred separately would be saved as a result of the merger. This savings estimate was reduced from 20 percent to recognize pre-merger plans of each company to reduce budgeted general and administrative expenses. As such, the August 21 Group concluded that the merger would produce general and administrative expense savings of approximately $300 million.

V. Summary of Merger Savings

Q. PLEASE SUMMARIZE THE AUGUST 21 MERGER SAVINGS ANALYSIS.

A. Schedule A.1 depicts the $2 billion in expense savings identified in the August 21 Analysis. The savings related to telephone operations discussed above appear as a subtotal on the line entitled "ILEC." The ILEC category refers to those savings opportunities that are related, in whole or in part, to regulated telephone operations. As shown in Schedule A.1, the total forecasted aggregate savings for GTE and Bell Atlantic's nationwide telephone operations is $1.2 billion. The remaining $800 million in total expense synergies relate to operations over which the Commission does not have ratemaking authority, including long distance, wireless, Internet and directories.

In addition to the expense synergies, the August 21 Analysis identified capital synergies (also depicted in Schedule A.1) related to Telephone Operations, yielding purchasing efficiencies of $350 million by year three. As mentioned previously, procurement savings opportunities include the use of the best of the two company's contracts for similar items and the standardization of equipment purchased. The August 21 Group determined that approximately 3 percent of capitalized procurement spending would be saved as a result of the opportunities identified. These efficiencies, however, may not result in an overall decrease in capital spending.

VI. <u>Total Aggregate Merger Costs</u>

A. Merger Costs Generally

Q. DOES THE AUGUST 21 ANALYSIS INCLUDE AN ESTIMATE OF MERGER COSTS?

A. No.

Q. WHEN AND BY WHOM WERE TRANSACTION AND IMPLEMENTATION COSTS ESTIMATED?

A. Merger cost estimates were developed subsequent to the August 21 Analysis for use in the SEC proxy statement. These estimates were developed by several senior financial employees from GTE and Bell Atlantic, all with experience with other mergers and internal consolidations. This high-level estimate ranged from $1.6 to $2.0 billion, and included both transaction and implementation costs. I assisted in the calculation of this estimate.

Q. WHAT COSTS DID YOU EXAMINE?

A. GTE and Bell Atlantic estimated two general types of merger costs. The first type, merger transaction costs, are necessary to consummate the merger so that merger savings can be achieved. These include, for example, legal and audit fees necessary to produce the proxy statement required by SEC rules and regulations. Estimated merger transaction costs were further divided into five categories: Professional Services, Compensation Agreements, Shareowner Related, Registration and Regulatory, and Other Items.

A second type of cost, merger implementation costs, are necessary to integrate GTE and Bell Atlantic after the consummation of the merger. These costs are directly associated with the merger synergies identified in the August 21 Analysis and do not include any costs that could be incurred if conditions were imposed by regulatory bodies, such as the FCC, as part of the merger approval process.

B. Merger Transaction Costs

Q. WHAT IS THE TOTAL ESTIMATED MERGER TRANSACTION COST?

A. Total merger transaction costs are estimated to be $375 million, of which $215.5 million is GTE's portion. Schedule A.2 provides a breakdown of GTE's merger transaction costs.

Q. PLEASE DESCRIBE THE COSTS INCLUDED IN EACH TYPE OF MERGER TRANSACTION COST.

A. Professional Services include costs for investment banking, consulting, legal, audit and actuarial services. These types of costs are necessary for such items as performing due diligence and deriving a stock conversion ratio that is fair to shareholders of both companies. Compensation Arrangements includes costs related to agreements with key management personnel to assure continuity throughout merger implementation, as well as acceleration of payments to key employees under various compensation plans. Shareowner costs relate to the preparation of the Proxy and shareholder meetings. The Registration and Regulatory category includes costs of filings with the SEC. The final category captures primarily employee and corporate communications costs.

C. Merger Implementation Costs

Q. WHAT IS THE TOTAL ESTIMATED MERGER IMPLEMENTATION COST?

A. Implementation costs were estimated for GTE and Bell Atlantic to range from $1.225 to $1.625 billion. For purposes of this proceeding, I have made the assumption that the implementation costs will equal the midpoint of this range, which is $1.425 billion.

Q. WHAT IS INCLUDED WITHIN THIS ESTIMATE?

A. The team that developed implementation cost estimates determined estimated cost ranges for severance and relocation, information systems, and other items such as branding, real estate consolidations, and departmental integration initiatives. These estimates, by cost category, form the basis of my assignment of costs to specific lines of business and functional categories.

Q. HOW DID YOU ASSOCIATE THESE COST ESTIMATES WITH THE SAVINGS IDENTIFIED BY THE AUGUST 21 GROUP?

A. In order to estimate the amount of implementation costs associated with the lines of business identified by the August 21 Group, I analyzed each savings category and determined a reasonable assignment of the total implementation cost to that category. I did this by analyzing the types of synergies associated with each savings category and the types of costs necessary to achieve those savings. For example, a substantial portion of the general and administrative savings category is related to staff consolidations and reductions; severance and relocation costs are necessary to achieve these savings. The types of costs I considered when estimating implementation costs were severance and relocation, information systems, and other. My estimates of implementation costs necessary to achieve synergies are set forth at Schedule A.3.

Q. WHY DO COSTS AS A PERCENTAGE OF SAVINGS VARY FROM ONE CATEGORY TO ANOTHER?

A. They vary among categories because of the nature of the underlying business in each category, and GTE and Bell Atlantic's relative participation in these lines of business. I determined that the percentage of implementation cost to merger synergy will be similar for Telephone Operations, Wireless and Directories. Each of these lines of business currently exist at both GTE and Bell Atlantic and are comparable in size but differ in processes and procedures. Merging these lines of business will result in significant costs related to such items as severance, relocation, information systems, office consolidations and training. By contrast, the synergies related to long distance and Internet will require less cost to achieve because these businesses are either less developed or not in existence at Bell Atlantic, and the actual synergies result more from the new company being able to avoid expenditures previously planned (i.e., cost avoidance). For example, Bell Atlantic will be able to avoid the start-up costs of developing long distance service delivery platforms that GTE has already implemented.

Q. WHY ARE THE COSTS ALLOCABLE TO G&A 108 PERCENT OF SYNERGIES?

A. The cost to synergy ratio is 108 percent for the G&A category primarily because of the relatively high level of severance and relocation costs required when staff functions consolidate.

Q. WHAT IS INCLUDED IN THE COSTS IDENTIFIED FOR TELEPHONE OPERATIONS AND G&A?

A. My analysis of implementation costs for Telephone Operations and G&A determined that approximately $341 million would be spent on systems, $500 million on severance and relocation, and $222 million on other items. Information systems expenses will be significant because both Telephone Operations and Corporate G&A organizations of the two companies utilize numerous different systems, many of which may not be compatible with each other. To adopt the best processes of one organization will often require the implementation of new systems which will in turn require an investment in training the work force. The elimination of duplicative functions and offices in the combined entity will obviously result in the reduction of the work force and the required relocation of key employees. As such, severance and relocation will also be a substantial portion of merger implementation costs in these categories. The "other" category includes branding costs of approximately $175 million, and costs associated with real estate consolidations, training and departmental integration.

Q. HAVE YOU PREPARED AN ALLOCATION OF COSTS TO SUB-CATEGORIES OF TELEPHONE OPERATIONS SIMILAR TO YOUR ALLOCATION OF SAVINGS IN THIS AREA?

A. Yes. Schedule A.4 depicts the total amount of implementation costs by savings category and the years over which those costs are expected to be incurred.

Q. WHY IS THE TIMING OF MERGER IMPLEMENTATION COSTS DIFFERENT FROM CATEGORY TO CATEGORY?

A. Timing of implementation costs will vary because certain costs will be incurred in certain categories earlier than they will be incurred in other categories. Severance and relocation dollars will be incurred early in the three year period following merger consummation because, by the anticipated close of the merger, it is expected that the MITs will have developed organizational structures and staffing plans. As such, significant staffing changes should be made in the first year after the merger is consummated. By contrast, information systems modification and development will require the company to expend resources for three years following consummation. Other implementation costs, such as real estate consolidations, will also be incurred over three years but most will tend to be incurred in years two and three.

VII. Summary

Q. COULD YOU PLEASE SUMMARIZE YOUR TESTIMONY REGARDING ESTIMATED MERGER COSTS AND SAVINGS?

A. The information provided in Schedule A.1 through Schedule A.4 reflects Applicants' best forecast of the gross savings and costs of the merger. Applicants estimate that, three years after consummation of the merger, the merged company will realize $2 billion in expense savings and $500 million in capital synergies. Applicants also estimate that merger transaction costs and merger implementation costs will total $1.8 billion. In his testimony, Mr. Shore explains how much of these savings and costs of the merger are attributable to GTE's regulated intrastate local telephone services in Kentucky.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes it does.

Bell Atlantic/GTE Net Merger Savings
Witness: Paul Shuell

Schedule A.1: Aggregate Forecasted Gross Merger Savings

	($ Millions)	Cost Base	% Savings	Annualized Gross Savings (note 1)		Savings Realization Year 1	Year 2	Year 3
		(a)	(b)	(c)		(d)	(e)	(f)
	EXPENSE SAVINGS							
	Telephone Operations							
1	Information Systems	$ 1,500.0	17%	$ 250.0				
2	Consumer & Business	2,650.0	5%	135.0				
3	Network/Customer Service	6,800.0	2%	140.0				
4	Procurement	6,300.0	3%	200.0				
5	Prod Mgmt/Advertising	900.0	12%	110.0				
6	Wholesale	330.0	5%	15.0				
7	Research & Development	245.0	20%	50.0				
8	Subtotal				$ 900.0	33%	67%	100%
9	Corporate G&A	1,908.0	15%		300.0	33%	67%	100%
10	Subtotal ILEC (note 2)				$ 1,200.0			
11	Long Distance			$ 300.0		33%	67%	100%
12	Wireless			200.0		33%	67%	100%
13	Internet			200.0		33%	67%	100%
14	Directories			100.0		33%	67%	100%
15	Subtotal non-ILEC (note 2)				$ 800.0			
16	Total				$ 2,000.0			
	CAPITAL SYNERGIES							
17	Telephone Operations				$ 350.0	43%	71%	100%
18	Long Distance			$ 50.0		60%	100%	100%
19	Wireless			50.0		20%	50%	100%
20	Internet			50.0		60%	100%	100%
21	Subtotal non-ILEC (note 2)				$ 150.0			
22	Total				$ 500.0			

Notes:
1. "Annualized Gross Savings" represent the forecasted aggregate third year, or fully implemented, level of savings as presented in the August 21 Analysis, excluding total merger costs.
2. As used herein, the term "ILEC" refers collectively to functions that, in whole or in part, support the regulated telephone operations of the companies.

Schedule A.2: Estimate of GTE Transaction Costs

($ Millions)		Estimated GTE Transaction Costs (a)
1 Professional services	$	(41.6)
2 Compensation agreements		(133.5)
3 Shareowner related		(8.5)
4 Registration & regulatory		(11.5)
5 Other		(20.4)
6 Total	$	(215.5)

Schedule A.3 : Estimate of Aggregate Implementation Costs

($ Millions)	Annualized Gross Savings	Costs to Achieve Synergy (note 1)	Costs as % Savings
	(a) = Sch A.1, col (c)	(b)	(c)
1 Telephone Operations	$ 900.0	$ 739.5	82%
2 Corporate G&A	300.0	323.5	108%
3 Subtotal ILEC (note 2)	$ 1,200.0	$ 1,063.0	89%
4 Long Distance	$ 300.0	$ 70.5	24%
5 Wireless	200.0	163.0	82%
6 Internet	200.0	47.0	24%
7 Directory	100.0	81.5	82%
8 Subtotal non-ILEC (note 2)	$ 800.0	$ 362.0	
9 Total	$ 2,000.0	$ 1,425.0	71%

Notes:

1. Does not include any incurred costs resulting from any conditions imposed as part of the merger approval process. Any such costs properly would be considered as implementation costs.
2. As used herein, the term "ILEC" refers collectively to functions that, in whole or in part, support the regulated telephone operations of the companies.

Schedule A.4: Aggregate Estimated Merger Implementation Costs

($ Millions)	Annualized Gross Savings		Costs as % Savings	Implementation Costs (note 1) Total		Year 1	Year 2	Year 3
	(a) = Sch A.1, col (c)		(b)	(c)=(a) x (b)		(d)	(e)	(f)
Telephone Operations								
1 Information Systems	$ 250.0		94%	$ (233.8)		52%	34%	14%
2 Consumer & Business	135.0		64%	(85.7)		43%	36%	21%
3 Network/Customer Service	140.0		64%	(88.9)		43%	36%	21%
4 Procurement	200.0		94%	(187.0)		52%	34%	14%
5 Prod Mgmt/Advertising	110.0		94%	(102.9)		52%	34%	14%
6 Wholesale	15.0		64%	(9.5)		43%	36%	21%
7 Research & Development	50.0		64%	(31.8)		53%	36%	12%
8 Subtotal		$ 900.0			$ (739.5)	50%	35%	16%
9 Corporate G&A		300.0	108%		(323.5)	54%	33%	12%
10 Subtotal ILEC (note 2)		$ 1,200.0			$ (1,063.0)			
11 Long Distance	$ 300.0		24%	$ (70.5)				
12 Wireless	200.0		82%	(163.0)				
13 Internet	200.0		24%	(47.0)				
14 Directories	100.0		82%	(81.5)				
15 Subtotal non-ILEC (note 2)		$ 800.0			$ (362.0)			
16 Total		$ 2,000.0			$ (1,425.0)			

Notes:
1. Does not include any incurred costs resulting from any conditions imposed as part of the merger approval process. Any such costs properly would be considered as implementation costs.
2. As used herein, the term "ILEC" refers collectively to functions that, in whole or in part, support the regulated telephone operations of the companies.

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BELL ATLANTIC CORPORATION AND GTE CORPORATION FOR ORDER AUTHORIZING TRANSFER OF UTILITY CONTROL	)))))	CASE NO. 99-____

DIRECT TESTIMONY OF

STEPHEN L. SHORE

ON BEHALF

OF

GTE CORPORATION

SUBJECT: MERGER COST AND SAVINGS ALLOCATION METHODOLOGY

JULY 9, 1999

DIRECT TESTIMONY OF STEPHEN L. SHORE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephen L. Shore. My business address is 1420 East Rochelle, Irving, Texas 75039.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by GTE Service Corporation as Assistant Controller-Wireline Operations. I also serve as the Controller for GTE South Incorporated ("GTE South"). I am providing testimony in this proceeding on behalf of GTE Corporation.

Q. WILL YOU BRIEFLY DESCRIBE YOUR EDUCATION AND WORK EXPERIENCE?

A. I graduated in 1973 with a Bachelor of Business Administration degree from the University of Georgia, with an emphasis in accounting. In 1975, I became a Certified Public Accountant. From June 1973 through May 1976, I was employed by Price Waterhouse & Co. In June 1976, I accepted a position in the Corporate Accounting department of Contel Corporation. Between June 1976 and June 1991, I served in several different financial and regulatory positions. In 1991, Contel Corporation was merged into GTE Corporation and in June 1991 GTE became my employer.

During the seven plus years that I have been a GTE employee, I have gained further experience in the areas of utility regulation and accounting. In September 1998, I was appointed Assistant Controller-Wireline Operations, which includes all of GTE's operating companies and GTE Communications Corporation, and I was also appointed Controller for those entities including GTE South.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to explain the methodology the Company used to determine the portion of aggregate (total Bell Atlantic and GTE) forecasted merger savings, net of merger transaction and merger integration costs, attributable to GTE South regulated intrastate services.

Q. HOW DID YOU BEGIN YOUR ANALYSIS TO DETERMINE THE PORTION OF AGGREGATE MERGER SAVINGS ATTRIBUTABLE TO GTE SOUTH REGULATED INTRASTATE SERVICES?

A. I began my analysis with the aggregate forecasted merger savings and costs, as identified and described by Mr. Shuell in Schedules A.1 through A.4. Using generally accepted cost allocation procedures, I determined the portion of aggregate merger savings and costs that is properly allocated first to GTE, next to GTE Network Services (i.e., GTE's incumbent local exchange carrier ("ILEC") Operations), then to GTE South operations, and finally to GTE South regulated intrastate services.

Q. ARE YOU SPONSORING ANY SCHEDULES?

A. Yes. A series of five schedules -- Schedules B.1 through B.5 -- illustrate how I carried out each of the above steps in the allocation process.

Q. HOW ARE YOU DEFINING FORECASTED MERGER SAVINGS?

A. For the purpose of my analysis, forecasted merger savings consist of expense and capital savings, net of any merger transaction and merger implementation costs.

II. Methodology for Allocating Merger Savings and Costs

Q. HOW DID YOU DETERMINE THE PORTION OF AGGREGATE MERGER SAVINGS ATTRIBUTABLE TO GTE SOUTH REGULATED INTRASTATE SERVICES?

A. I determined the portion of aggregate merger savings attributable to GTE South regulated intrastate services through a series of allocation steps that I describe below. The allocations I used for each step are consistent with the procedures routinely used by GTE for ILEC regulatory reporting, Securities and Exchange Commission reporting and for budgeting purposes. These procedures provide the means for all GTE Service Corporation and GTE Network Services costs to be allocated properly among the various business units and legal entities supported, and between regulated and non-regulated operations, in conformance with FCC Docket 86-111, FCC Docket 96-150, and GTE's Cost Allocation Manual and affiliate contracts. This Commission is familiar with GTE's standard allocation methodologies because the Company reports its financial results to this Commission using these procedures.

Q. WHAT STEPS DID YOU TAKE TO DETERMINE THE PORTION OF AGGREGATE FORECASTED MERGER COSTS AND SAVINGS ATTRIBUTABLE TO GTE SOUTH REGULATED INTRASTATE SERVICES?

A. My analysis included five basic steps to determine the portion of aggregate forecasted merger savings and costs attributable to GTE South regulated intrastate services:

a. Determine the GTE portion of aggregate forecasted merger savings and costs. Schedule B.1.

b. Determine the GTE Network Services and GTE South portions of total GTE savings and costs. Schedule B.2.

c. Calculate carrying charges associated with the GTE South portion of capital synergies. Schedule B.3.

d. Determine the regulated intrastate portion of GTE South savings and costs. Schedule B.4.

e. Determine the net merger savings by year. Schedule B.5.

Q. WHAT WAS THE STARTING POINT FOR THE ANALYSIS?

A. The starting point for this analysis was the summary of aggregate forecasted merger savings and total merger costs presented by Mr. Shuell in Schedules A.1 and A.4. This analysis first used the third year or fully implemented, level of forecasted aggregate merger savings to determine gross savings. I then used these results along with the offsetting merger costs to calculate net merger savings by year, reflecting the partial realization of gross savings in the first and second years as presented by Mr. Shuell in Schedules A.1 and A.4.

Q. WHAT WAS THE FIRST STEP IN YOUR ANALYSIS?

A. The first step in my analysis was to determine the following: (1) whether the aggregate forecasted merger savings will accrue solely to either Bell Atlantic or

GTE, or whether the savings will be realized jointly by the two companies; and (2) whether aggregate savings are attributable, in whole or in part, to the regulated telephone operations of the companies.

Q. HOW DID YOU DETERMINE IF THE SAVINGS WERE SOLELY OR JOINTLY ATTRIBUTABLE TO GTE OR BELL ATLANTIC?

A. The determinations I made in each case were based on the nature of the identified synergy opportunities discussed by Mr. Shuell in his testimony, and are shown in Schedule B.1, columns (b) through (e).

Q. WHAT SAVINGS AND COSTS WERE INCLUDED IN YOUR ANALYSIS?

A. Any savings or costs accruing solely to GTE should be included in their entirety. Savings or costs that will be realized jointly by GTE and Bell Atlantic must also be included through an allocation process. Any savings or costs accruing solely to Bell Atlantic may properly be excluded from the analysis.

Q. HOW WERE THE SAVINGS OR COSTS TO BE REALIZED JOINTLY HANDLED IN YOUR ANALYSIS?

A. Savings or costs that will be realized jointly must be allocated between the two companies in order to determine the GTE portion. This is a relevant step in my analysis for any "joint" savings opportunity attributable, at least in part, to GTE's regulated telephone operations. As shown in Schedule B.1, there are two such groups of "joint" savings opportunities: (1) Telephone Operations; and (2) Corporate G&A.

Q. WHAT ALLOCATION FACTOR DID YOU USE FOR TELEPHONE OPERATIONS SAVINGS?

A. For Telephone Operations expense savings, an allocation factor was developed (30 percent for GTE and 70 percent for Bell Atlantic) using 1997 ARMIS data, based on the percentage relationship of GTE Telephone Operations "Big Three Expenses" (i.e., Plant Specific, Plant Non-Specific and Customer Operations) to the Big Three Expenses of GTE's and Bell Atlantic's telephone operations combined. GTE typically uses an allocation based on "Big Three Expenses" to allocate common Telephone Operations costs among various legal entities. I applied the resulting factor (30 percent) to aggregate Telephone Operations expense savings to determine the GTE portion shown in Schedule B.1, column (h), lines 1 through 7.

Q. WHAT ALLOCATION FACTOR DID YOU USE FOR CORPORATE G&A EXPENSE SAVINGS?

A. For "Corporate G&A" expense savings, I developed a separate allocation factor (42 percent for GTE and 58 percent for Bell Atlantic) using the 1997 Annual Reports of both companies, based on the percentage relationship of GTE Total Operating Expenses and Taxes (excluding income taxes) to the Total Operating Expenses and Taxes of GTE and Bell Atlantic combined. GTE typically uses an allocation based on Operating Expenses and Taxes to allocate common corporate G&A costs among various business units and legal entities. I applied the resulting factor (42 percent) to aggregate "Corporate G&A" expense savings to determine the GTE portion shown in Schedule B.1, column (h), line 8.

Q. ARE THESE ALLOCATION FACTORS AND METHODS ROUTINELY USED BY GTE AND BELL ATLANTIC TO ALLOCATE SIMILAR TYPES OF COSTS?

A. Yes. In both of the above instances, I chose an allocation method that is consistent with methods and procedures routinely used by GTE for the internal allocation of similar costs. In addition, I discussed the selected allocation methods with members of the Bell Atlantic Finance organization to confirm that, in their view, the factors were accurate, and that these methods were not inconsistent with the cost allocation methods routinely employed by Bell Atlantic.

Q. WHAT SAVINGS DID YOU EXCLUDE FROM YOUR ANALYSIS?

A. Savings opportunities for Long Distance, Wireless, Directories, and Internet are (1) attributable to Bell Atlantic only; (2) not subject to the ratemaking authority of this Commission; or (3) attributable to fully competitive services. Therefore, these savings were excluded from further analysis.

Q. IS THERE AN ADDITIONAL PORTION OF THE MERGER SAVINGS THAT SHOULD BE EXCLUDED FROM YOUR ANALYSIS?

A. Yes. It is also appropriate to identify any portions of forecasted merger savings expected to result from the merged company's adoption of the best practices of either Bell Atlantic or GTE. Based on my review of the nature of such opportunities, I could then establish that all or a portion of the associated savings could reasonably have been anticipated, even if the merger had not occurred, and exclude that portion of the savings from further analysis. Such an exclusion is appropriate because GTE, like most other major telecommunications companies, undertakes process reengineering efforts to make its operations better and more efficient. These efforts would have continued absent the merger, and thus a certain amount of savings from best practices may not be a direct result of the merger.

As discussed in the testimony of Mr. Shuell, the adoption of best practices contributes to the savings forecasted by the August 21 Team in the area of Corporate G&A, as well as the Consumer and Business, Network/Customer Service, Procurement, and Wholesale functions within ILEC operations. However, based on information available at this time, I cannot quantify that portion of the estimated merger savings that would occur as a result of the adoption of best practices. Accordingly, no reduction in sharable savings has been made and, as a result, the savings calculation may be overinclusive.

Q. WHAT ADDITIONAL TYPES OF SAVINGS WERE IDENTIFIED TO BE REALIZED IN THIS PROPOSED MERGER?

A. Capital synergies were also included in Mr. Shuell's summary of aggregate merger savings, and were identified separately for Telephone Operations, Long Distance, Wireless, and Internet business units. Only the Telephone Operations portion of the identified capital synergies is relevant to my analysis.

Q. HOW DID YOU DETERMINE THE GTE PORTION OF THESE CAPITAL SYNERGIES?

A. In order to determine the GTE portion of aggregate capital synergies for Telephone Operations functions (Schedule B.1, column (h), line 10), I used the same "Big Three Expense" allocator (30 percent for GTE) that was used to identify the GTE portion of Telephone Operations expense savings.

Q. DID MR. SHUELL PROVIDE AN ESTIMATE OF THE TOTAL MERGER COSTS TO BE INCURRED IN THIS MERGER?

A. Yes. Mr. Shuell estimated total merger costs in Schedules A.2 and A.3, segregated between two different types: (1) "merger transaction costs," which are costs incurred to consummate the merger; and (2) "merger implementation costs," which are costs that will be incurred to integrate the operations and management of GTE and Bell Atlantic and to achieve the forecasted merger savings.

Q. HOW DID YOU DETERMINE THE GTE PORTIONS OF AGGREGATE MERGER TRANSACTION AND IMPLEMENTATION COSTS FOR TELEPHONE OPERATIONS AND CORPORATE G&A?

A. The merger transaction costs were presented separately for GTE and Bell Atlantic, so no further allocations were necessary to determine the GTE portion. In order to determine the GTE portion of Telephone Operations and Corporate G&A merger transaction costs and merger implementation costs (Schedule B.1, column (h), lines 12 and 13, respectively), I applied the same allocation factors (30 percent and 42 percent, respectively) that were used to identify the GTE portion of Telephone Operations and Corporate G&A expense savings.

Q. DOES THIS COMPLETE YOUR DESCRIPTION OF THE FIRST STEP IN THE ANALYSIS?

A. Yes. The allocation steps described above enabled me to identify the GTE portion of aggregate forecasted merger expense and capital savings, as well as the GTE portion of the aggregate estimated merger transaction costs and merger implementation costs.

Q. WHAT WAS THE SECOND STEP IN YOUR ANALYSIS?

A. Using the Total GTE Savings shown on Schedule B.1, column (h), the next step was to determine the portion of savings attributable to GTE Network Services and to GTE South.

Q. HOW DID YOU BEGIN THE ANALYSIS?

A. The analysis begins by assigning the Total GTE savings into the following categories: Telephone Operations, and savings that would be assigned to Corporate G&A (i.e., GTE Service Corporation). These assignments were made by using the descriptions contained in Mr. Shuell's testimony.

Q. ONCE THE ASSIGNMENTS WERE MADE, WHAT DID YOU DO NEXT?

A. The next step was to determine what percentage of each of these categories constituted "GTE Network Services." (Schedule B.2, column (b).) Expense savings, capital synergies and merger costs identified for Telephone Operations were directly assigned to GTE Network Services. A portion (78 percent) of the savings and costs identified for Corporate G&A, as well as merger transaction costs, were allocated to GTE Network Services.

Q. WHAT ALLOCATION METHODOLOGY DID YOU USE FOR THIS PURPOSE?

A. The methodology used to allocate a portion of the savings attributable to Corporate G&A (i.e., GTE Service Corporation) to GTE Network Services is based on GTE's current expense allocation policy, which is to allocate expenses to Telephone Operations in accordance with FCC Docket 86-111, FCC Docket 96-150, GTE's Cost Allocation Manual, and its affiliate contracts.

Q. HOW IS THE ALLOCATION FACTOR FOR GTE SERVICE CORPORATION DETERMINED?

A. Expenses for GTE Service Corporation result from its own salaries and expenses and the salaries of other GTE companies billed to GTE Service Corporation for work done for the benefit of some or all GTE companies. GTE Service Corporation performs work exclusively for GTE Corporation and its subsidiaries.

All expenses, with the exception of direct expenses, are distributed to GTE companies on the basis of a time study of GTE Service Corporation departments, which is performed once each calendar year. Direct expenses of GTE Service Corporation which are specific to services that benefit individual companies, are billed directly to these companies.

The results of the time study and the direct expense allocation together produce a weighted factor of 78 percent to GTE Network Services.

Q. HOW DID YOU DETERMINE THE GTE SOUTH SHARE OF TELEPHONE OPERATIONS EXPENSE SAVINGS AND MERGER IMPLEMENTATION COSTS?

A. Once the GTE Network Services portion of savings and costs was determined, I calculated the GTE South share of GTE Network Services. For telephone operations, an allocation factor was developed (2.79 percent) based on the percentage relationship of GTE South Big Three Expenses to total Big Three Expenses for all GTE Network Services states combined.

Q. HOW DID YOU DETERMINE THE GTE SOUTH SHARE OF THE CORPORATE G&A EXPENSE SAVINGS, AND THE MERGER TRANSACTION COSTS?

A. A separate allocation factor was developed (2.75 percent) based on the percentage relationship of GTE South Total Operating Expenses and Taxes to the Total Operating Expenses and Taxes for all GTE Network Services states combined.

Q. WHAT WAS THE THIRD STEP IN YOUR ANALYSIS?

A. The carrying charge calculation begins by developing forecasted capital synergies by year, using the GTE South capital synergies identified on Schedule B.2, column (e), line 11, and the capital synergy realization percentages presented in Schedule A.1, line 17. Cumulative average capital synergies by year (Schedule B.3, line 4) were then multiplied by the GTE South composite depreciation rate (Schedule B.3, column (a), line 5) to calculate reduced depreciation expenses by year. The composite depreciation rate (8.5%) is based on the depreciation rates authorized by this Commission for GTE South in Docket Nos. 94-215 and 97-045, effective January 1, 1994 and January 1, 1997, respectively.

Cumulative average capital synergies by year were also used to calculate reduced property taxes, based on the 1997 gross plant property tax rate for GTE South-Kentucky (0.65 percent). The rate of 0.65 percent is multiplied by the cumulative average capital synergies by year (Schedule B.3, line 4).

Cumulative average capital synergies net of reduced depreciation expense was then calculated by subtracting the reduced depreciation expense (Schedule B.3, line 5) from the cumulative average capital synergies (Schedule B.3, line 4). The reduced after-tax return requirement was calculated using the cumulative average capital synergies net of reduced depreciation expense and applying a rate of return of 10.61percent. This rate of return is the last authorized return on equity (12.75 percent) that was approved by this Commission in September 1988, applied to the March 31, 1998 capital structure for GTE South.

Once the after-tax return requirement was calculated, a tax gross-up factor was applied to generate a pre-tax return requirement. The total reduction in charges associated with the GTE South capital synergies consists of the reductions in depreciation expense, property taxes and pre-tax return requirement, combined.

Q. HOW DID YOU DETERMINE THE REGULATED INTRASTATE PORTION OF GTE SOUTH SAVINGS AND COSTS?

A. Using the results from Schedule B.2 and Schedule B.3, a further allocation was performed to determine the portion of GTE South savings attributable to intrastate services as shown in Schedule B.4. The regulated portion of GTE South (82.44 percent) was determined based on the relationship of total GTE South regulated operating expenses to total regulated and non-regulated GTE South operating expenses utilizing the “1998 Annual report” and “Fourth Quarter

Quarterly Commission Surveillance Report" as filed with this Commission. The result is shown in Schedule B.4, line 2.

Once the regulated portion was determined, I then determined the regulated intrastate portion (76.25 percent) using the "Fourth Quarter 1998 Quarterly Commission Surveillance Report" as filed with this Commission. The result is shown in Schedule B.4, line 3.

The composite factor representing the regulated intrastate portion of GTE South-Kentucky (62.86 percent) was calculated in Schedule B.4, line 4, and applied to GTE South-Kentucky expense savings, capital carrying charge savings, and merger transaction and implementation costs to complete the allocation process.

Q. WHAT WAS YOUR FINAL STEP IN DETERMINING THE NET MERGER SAVINGS BY YEAR FOR GTE SOUTH?

A. Schedule B.5 sets out net GTE South–Kentucky intrastate merger savings for regulated intrastate services by year, based on the results of allocations computed in Schedule B.1 through Schedule B.4. I noted earlier that these results, which appear in column (b) of Schedule B.4, were developed using the annual "fully-implemented level" of forecasted merger savings.

As discussed by Mr. Shuell in his testimony, forecasted merger expense savings were assumed to be achievable in full during the third year after the merger, with one-third of the savings realized in the first year, and two-thirds in the second year. These assumptions, as well as the schedules for the realization of capital synergies, merger transaction costs and merger implementation costs shown in Schedules A.1 through A.4 were used to develop the GTE South regulated intrastate merger savings and costs by year.

Q. WHAT ARE THE NET SAVINGS BY YEAR THAT COULD BE ATTRIBUTED TO GTE SOUTH REGULATED INTRASTATE SERVICES?

A. As shown on Schedule B.5, line 15, the estimated net savings by year are as follows:

(In Millions)	2000	2001	2002
Net Savings by Year	$(3.4)	$2.6	$6.4

Q. PLEASE SUMMARIZE THE RESULTS OF YOUR ANALYSIS.

A. The estimates of merger costs and savings demonstrate that the merger will reduce expenses associated with Kentucky regulated intrastate services by the end of the second year following merger approval.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

Schedule B.1: Total GTE Portion of Aggregate Forecasted Merger Savings and Costs

	($ Millions)	Annualized Savings & Costs (note 1) (a)		GTE (b)	BA (c)	Joint (d)	(note 2) ILEC (e)	Best Pract (f)	% GTE (g)	Total GTE Savings & Costs (h) = (a) x [1-(f)] x (g)	
	EXPENSE SAVINGS	[Sch A.1, col (c)]									
	Telephone Operations										
1	Information Systems	$ 250.0				X	X	0%	30%	$ 75.0	
2	Consumer & Business	135.0				X	X	0%	30%	40.7	
3	Network/Customer Service	140.0				X	X	0%	30%	42.2	
4	Procurement	200.0				X	X	0%	30%	60.3	
5	Prod Mgmt/Advertising	110.0				X	X	0%	30%	33.1	
6	Wholesale	15.0				X	X	0%	30%	4.5	
7	Research & Development	50.0	$ 900.0			X	X	0%	30%	15.1	$ 270.9
8	Corporate G&A		300.0			X	X	0%	42%		124.6
9	Total ILEC (note 2)		$ 1,200.0								$ 395.5
	CAPITAL SYNERGIES	[Sch A.1, col (c)]									
10	Telephone Operations		$ 350.0			X	X	0%	30%		$ 105.5
	MERGER COSTS	[Sch A.2, col (a)]									
11	Transaction costs		$ (215.5)	X			X	0%	100%		$ (215.5)
	Implementation costs	[Sch A.4, col (c)]									
12	Telephone Operations	$ (739.5)				X	X	0%	30%	$ (221.9)	
13	Corporate G&A	(323.5)	$ (1,063.0)			X	X	0%	42%	(134.3)	$ (356.2)
14	Total ILEC (note 2)		$ (1,278.5)								$ (571.7)

Notes:

1. "Annualized Savings" represent the forecasted aggregate third year, or fully implemented, level of savings as presented in the August 21 Analysis (see Schedule A.1).
2. As used herein, the term "ILEC" refers collectively to functions that, in whole or in part, support the regulated telephone operations of the companies.

Schedule B.2: GTE South-Kentucky Portion of Total GTE Savings and Costs

	($ Millions)	Total GTE Savings & Costs	GTE Network Services %	GTE Network Services Savings & Costs	GTE South-Kentucky %	GTE South-Kentucky Savings & Costs
		(a) = Sch B.1, col (h)	(b)	(c) = (a) x (b)	(d)	(e) = (c) x (d)
	EXPENSE SAVINGS					
	Telephone Operations					
1	Information Systems	$ 75.0	100%	$ 75.0	2.79%	$ 2.1
2	Consumer & Business	40.7	100%	40.7	2.79%	1.1
3	Network/Customer Service	42.2	100%	42.2	2.79%	1.2
4	Procurement	60.3	100%	60.3	2.79%	1.7
5	Prod Mgmt/Advertising	33.1	100%	33.1	2.79%	0.9
6	Wholesale	4.5	100%	4.5	2.79%	0.1
7	Research & Development	15.1	100%	15.1	2.79%	0.4
8	Subtotal	$ 270.9		$ 270.9		$ 7.5
9	Corporate G&A	124.6	78%	97.2	2.75%	2.7
10	Total	$ 395.5		$ 368.1		$ 10.2
	CAPITAL SYNERGIES					
11	Telephone Operations	$ 105.5	100%	$ 105.5	2.79%	$ 2.9
	MERGER COSTS					
12	Transaction costs	$ (215.5)	78%	$ (168.1)	2.75%	$ (4.6)
	Implementation costs					
13	Telephone Operations	$ (221.9)	100%	$ (221.9)	2.79%	$ (6.2)
14	Corporate G&A	(134.3)	78%	(104.8)	2.75%	(2.9)
15	Subtotal	$ (356.2)		$ (326.7)		$ (9.1)
16	Total	$ (571.7)		$ (494.8)		$ (13.7)

Schedule B.3: Carrying Charges Associated with GTE South-Kentucky Portion of Capital Synergies

	($ Millions)	Total (a)	Year 1 (2000) (b)	Year 2 (2001) (c)	Year 3 (2002) (d)
	Telephone Operations				
1	Total capital synergies [Sch B.2, ln 11(e)]	$ 2.9			
2	Capital synergy realization [Sch A.1, ln 17]		43%	71%	100%
3	Capital synergies by year [ln 1(a) x ln 2]		$ 1.2	$ 2.1	$ 2.9
4	Cumulative average capital synergies [ln 3]		$ 0.6	$ 2.3	$ 4.8
5	Reduced depreciation expense [ln 4 x ln 5(a)]	8.50%	$ 0.10	$ 0.20	$ 0.40
6	Reduced property tax expense [ln 4 x ln 6(a)]	0.65%	$ -	$ -	$ -
7	Cumulative average capital synergies net of reduced depreciation expense [ln 4 - ln 5]		$ 0.5	$ 2.1	$ 4.4
8	Reduced after-tax return requirement [ln 7 x ln 8(a)]	10.61%	$ 0.10	$ 0.20	$ 0.50
9	Tax gross-up factor (note 1)	1.6768			
10	Reduced pre-tax return requirement [ln 8 x ln 9(a)]		$ 0.2	$ 0.3	$ 0.8
11	Total [ln 5 + ln 6 + ln 10]		$ 0.3	$ 0.5	$ 1.2

Calculation of Tax Gross-up Factor:

12	Pre-Tax Income		1.0000
13	Less SIT [ln 12 x ln 18]		0.0825
14	FIT Base [ln 12- ln13]		0.9175
15	Less FIT [ln 14 x ln 19]		0.3211
16	After-tax income [ln 14 - ln 15]		0.5964
17	Tax gross-up factor [1/ln16]		1.6768
18	State tax Rate	8.25%	
19	Federal Tax Rate	35.00%	

Schedule B.4: Regulated Intrastate Portion of GTE South-Kentucky Savings and Costs

1	Total GTE South-Kentucky	100.00%
2 x	Regulated portion of GTE South-Kentucky	82.44%
3 x	Intrastate portion of regulated	76.25%
4 =	GTE South-Kentucky regulated intrastate [ln 1 x ln 2 x ln 3]"	62.86%

	($ Millions)	GTE South-Kentucky Savings and Costs (a1) = Sch B.2, col (e)	GTE South-Kentucky Capital Synergies (a2) = Sch B.3, ln 11	Regulated Intrastate Savings and Costs (b) = (a) x ln 4
	EXPENSE SAVINGS			
6	Telephone Operations	$ 7.5	$ -	$ 4.7
7	Corporate G&A	2.7	-	1.7
8	Total	$ 10.2	$ -	$ 6.4
	CAPITAL CARRYING CHARGES			
	Telephone Operations			
9	Year 1 (2000)	$ -	$ 0.3	$ 0.2
10	Year 2 (2001)	-	0.5	0.3
11	Year 3 (2002)	-	1.2	0.8
	MERGER COSTS			
13	Transaction Costs	$ (4.6)	$ -	$ (2.9)
	Implementation Costs			
14	Telephone Operations	$ (6.2)	$ -	$ (3.9)
15	Corporate G&A	(2.9)	-	(1.8)

Schedule B.5: GTE South-Kentucky Net Merger Savings By Year

($ Millions)	Regulated Intrastate Savings and Costs	Year 1 (2000)	Year 2 (2001)	Year 3 (2002)
	(a) = Sch B.4, col (b)	(b)	(c)	(d)
EXPENSE SAVINGS				
1 Telephone Operations	$ 4.7	33%	67%	100%
2		$ 1.6	$ 3.1	$ 4.7
3 Corporate G&A	1.7	33%	67%	100%
4		0.6	1.1	1.7
5 Total		$ 2.2	$ 4.2	$ 6.4
CAPITAL SYNERGIES				
6 Telephone Operations		$ 0.2	$ 0.3	$ 0.8
MERGER COSTS				
7 Transaction Costs	$ (2.9)	100%		
8		$ (2.9)	$ -	$ -
Implementation costs				
9 Telephone Operations	$ (3.9)	50%	35%	16%
10		$ (1.9)	$ (1.3)	$ (0.6)
11 Corporate G&A	(1.8)	54%	33%	12%
12		(1.0)	(0.6)	(0.2)
13 Subtotal		$ (2.9)	$ (1.9)	$ (0.8)
14 Total		$ (5.8)	$ (1.9)	$ (0.8)
15 **NET SAVINGS**		$ (3.4)	$ 2.6	$ 6.4