

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF BELL)	
ATLANTIC CORPORATION AND)	
GTE CORPORATION FOR ORDER)	CASE NO. 98-519
AUTHORIZING TRANSFER OF)	
UTILITY CONTROL)	

O R D E R

On October 2, 1998, GTE Corporation ("GTE") and Bell Atlantic Corporation ("Bell Atlantic") (hereinafter "Joint Applicants") filed a petition requesting approval of a transfer of utility control which would result in GTE's becoming a wholly owned subsidiary of Bell Atlantic.

GTE provides local exchange service in twenty-eight states to approximately 22.3 million access lines. GTE South, GTE's local exchange company operating in Kentucky, serves approximately 524,000 access lines in Kentucky. Bell Atlantic's operating companies serve approximately 40.8 million access lines primarily in the northeast and mid-Atlantic states. Bell Atlantic provides long-distance service in Kentucky to approximately 100 customers through two subsidiaries.

The merger is proposed to occur in two steps: GTE would merge into Beta Gamma Corporation, a subsidiary of Bell Atlantic, which has been created to facilitate this merger. GTE would be the surviving subsidiary and Bell Atlantic would be the surviving parent corporation. GTE's local exchange subsidiaries, such as GTE South, would become second-tier subsidiaries of Bell Atlantic.

Joint Applicants must meet the standards set forth in both KRS 278.020(4) and (5) to receive approval of the transfer. Section 4 states that approval of a transfer will occur if the acquiring utility "has the financial, technical, and managerial abilities to provide reasonable service." Section 5 states that the Commission shall approve a proposed acquisition when it finds that the transfer is "made in accordance with law for a proper purpose and is consistent with the public interest." In the absence of mutually accepted extensions of time, the Commission has sixty days to review a transfer application. The Joint Applicants agreed to extensions to April 15, 1999.

The Joint Applicants have repeatedly been asked to supply information necessary to determine whether the transfer will meet the statutory standards. Despite an informal conference, data requests, and a public hearing, the information supplied by Joint Applicants before and during the hearing is insufficient for the Commission to determine whether the statutory standards are met. GTE and Bell Atlantic have provided only general statements regarding their intentions. The generic information about the merger provided to date is not sufficient to permit this Commission to approve it consistent with its statutory mandate to safeguard the public interest of Kentuckians. Accordingly, it cannot approve the proposed merger at this time.

Joint Applicants may refile their petition, but such filing must include at a minimum specific and detailed documentation regarding the following:

1. Quantification of the benefits to Kentucky of the proposed merger. The evidence of record indicates that Joint Applicants believe that certain general benefits will be realized in Kentucky. However, their statements in support of those beliefs are unacceptably vague. For example, Joint Applicants state that the availability of

advanced services is one benefit of the merger. In any refiling, they must identify specifically those advanced services which will be made available in Kentucky as a result of the merger and must describe the specific services that Bell Atlantic plans to introduce in its Kentucky market. In addition, Joint Applicants have indicated that bundling or packaging of services will be made available to Kentuckians as a result of the merger. A refiling is expected to specify which services will be packaged and to explain why such packaging is not available from GTE alone.

2. In any refiling, Joint Applicants must specify the mechanisms and safeguards which they will employ to ensure that service quality does not erode in Kentucky. These specifications must include GTE's plan to continue addressing problem areas identified in its management audit.

3. Joint Applicants have failed to explain the details of their proposed merger. In any refiling, Bell Atlantic and GTE must supply information concerning their intention to continue operating separately, the expected time frame to merge their operating companies, and the effect the merger of operating companies would have on rates and services in Kentucky.

4. In any refiling, Joint Applicants must specify whether the merger will affect any interLATA local calling routes currently provided by GTE South to its Kentucky customers and whether the merger will affect the continuation of interLATA interexchange service offered by GTE Long Distance to its Kentucky customers. The effect that the merger will have on cellular customers of GTE and Bell Atlantic affiliates must also be described.

5. The Commission is concerned about the market power which may be exercised as a result of the merger of GTE and Bell Atlantic and its effect on telecommunications competition in Kentucky. The merged company would, Joint Applicants state, enter the Louisville local exchange market within eighteen months of merger consummation. The applicants have not, however, addressed the benefits such competition would bring to GTE's incumbent local exchange customers and to other areas of Kentucky. In any refiling, Joint Applicants 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.

6. Finally, in any refiling, 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. This information must include an analysis of the total projected merger costs and savings at the corporate level by year through the time period in which projected net merger-related savings are fully realized. This analysis must describe all the assumptions used by the Joint Applicants in calculating projected merger costs and the projected \$2 billion savings. Joint Applicants must also file projected costs and savings allocated to the Kentucky jurisdictional level. GTE and Bell Atlantic must also include detailed plans on a year-by-year basis for providing tangible cost savings through rate reductions or network upgrades to the Kentucky jurisdiction.

The Commission having considered the Joint Applicants' petition and other evidence of record, and being otherwise sufficiently advised, HEREBY ORDERS that:

1. The Joint Applicants' petition for approval of the merger of GTE and Bell Atlantic is denied, and this case is dismissed without prejudice.

2. Joint Applicants may refile their application at their discretion and shall at a minimum include information described herein.

Done at Frankfort, Kentucky, this 14th day of April, 1999.

By the Commission

ATTEST:

Executive Director