

# LOUISIANA PUBLIC SERVICE COMMISSION

## ORDER NUMBER U-29427

### AT&T, INC. AND BELLSOUTH CORPORATION, EX PARTE

---

*Docket No. U-29427 - In re: Request for approval and/or letter of non-opposition to the indirect change in control of certain certificated entities resulting from the planned merger.*

---

(Decided at the July 12, 2006 Business and Executive Session)

#### **BACKGROUND**

On March 31, 2006, AT&T, Inc. (“AT&T”) and BellSouth Corporation (“BellSouth Corp”) (collectively “Applicants”) filed a joint request seeking the Commission’s non-opposition to the proposed merger of AT&T and BellSouth Corp. As further outlined in the request, the merger was described as a “holding company transaction”, and thus only affects the corporate parents, i.e. AT&T and BellSouth Corp., of the following companies certificated to provide service in Louisiana:

1. AT&T Communications of the South Central States, LLC, which is authorized to provide local exchange and interexchange services pursuant to certificate number TSP00040-A;
2. TC Systems, Inc., which is authorized to provide local exchange and interexchange services pursuant to certificate number TSP00540;
3. SBC Long Distance, LLC, d/b/a AT&T Long Distance, which is authorized to provide resold interexchange services with operator services and resold and facilities based local exchange services pursuant to certificate numbers TSP00156 and TSP00156-C; and
4. SNET America, d/b/a AT&T Long Distance East, which is authorized to provide resold interexchange services with operator services and resold and facilities based local exchange services pursuant to certificate number TSP00527.

Additionally, BellSouth Corp. is the holding company parent of the following entities:

1. BellSouth Telecommunications, Inc. (“BellSouth”), which provides local exchange and exchange access services as an incumbent local exchange carrier (“ILEC”); and
2. BellSouth Long Distance, Inc. (“BSLD”), which is authorized to provide intrastate interexchange telecommunications services as well as competitive local exchange company services pursuant to certificate number TSP00208-A.

As a result of the merger being proposed at the holding level only, it was emphasized that none of the above operating entities certificated to provide service in Louisiana would be

affected as a result of this merger. Additionally, the certificated entities will continue to operate pursuant to their certificates of authority described above.

The joint request was published in the Commission's Official Bulletin dated April 7, 2006, for a period of 15 days. Timely interventions were received from the Small Company Committee of the Louisiana Telecommunication Association ("SCC"), Cox Louisiana Telecom ("Cox"), the Louisiana Cable and Telecommunications Association ("LCTA") on behalf of its member companies, US LEC Communications, Inc. ("US LEC"), the Competitive Carriers of the South, Inc. ("CompSouth") on behalf of its member companies, NuVox Communications, Inc. ("NuVox"), Xspedius Communications, LLC ("Xspedius"), Image Access, Inc. d/b/a NewPhone ("NewPhone"), and DEICA Communications, Inc. d/b/a Covad Communications Company ("Covad"). In addition to the timely interventions, the Commission received requests to intervene out of time from the Communications Workers of America ("CWA") and DeltaCom, Inc. ("DeltaCom"). Both motions for leave to intervene out of time were subsequently granted. Covad later withdrew its intervention. Prior to the filing of its position statement, on May 18, 2006, the Commission Staff issued a number of data requests to the applicants. In addition to reviewing responses to those requests, Staff reviewed the comments filed by the parties and the responsive comments filed by BellSouth.

Pursuant to the procedural schedule adopted in the docket, the Commission Staff filed on June 29, 2006 a position statement recommending the Commission issue its non-opposition to the transaction as proposed by the applicants.

#### ***APPLICABLE LAW***

Article IV § 21 of the Louisiana Constitution of 1974, grants the Louisiana Public Service Commission the authority to regulate,

all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations, and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.

Pursuant to the above authority, the Commission adopted the General Order dated March 18, 1994, which requires the Commission's non-opposition being issued prior to

consummation of any “Sales, Leases, Mergers Consolidations, Stock transfers, and All Other Changes of Ownership or control of Public Utilities Subject to Commission Jurisdiction.” Additionally, this Commission has adopted the *Regulations for Competition in the Local Telecommunications Market*, as most recently modified by the General Order dated October 31, 2005, which governs a number of aspects of telecommunications competition, including the relationship between BellSouth and its CLEC customers, Order No. U-24802-A, which established retail service quality objectives that apply to BellSouth, and Order No. U-22252, Subdocket C, which established service quality measurements that apply to BellSouth’s Section § 251<sup>1</sup> mandated offerings.

#### ***STAFF’S RECOMMENDATION ON THE APPLICATION***

Staff, by way of the Commission’s Minute Entry dated April 25, 1989, is designated the authority to review and process requests for letters of non-opposition for compliance with the March 18, 1994 General Order, provided the requests remain “uncontested.”<sup>2</sup> As set forth in the General Order, one of the stated policies is that “the Commission must be able to ensure safe, efficient and reliable services at reasonable rates, and that ratepayers will not be harmed as a result of the change in ownership or control.” The Commission Staff typically performs this review by taking in account the responses by applicants to the “18 Factors” set forth in section 2 of the General Order. Paramount of concern to the Commission and Staff is that proposed transactions are in the “public interest.” In reviewing proposed mergers subjected to the requirements of the General Order, the Commission determines whether a transaction should receive its non-opposition based on an analysis of the transaction, particularly emphasizing if the transaction satisfies each of the “18 Factors” as contained in the General Order.

In reaching its ultimate recommendation, Staff reviewed the comments filed by all parties to the proceeding, data responses provided by the applicants, and the applicable factors to be considered under the March 18, 1994 General Order. Staff reached the following conclusions with respect to the factors.

---

<sup>1</sup> 47 USC § 251

<sup>2</sup> While the minute entry was issued prior to the effective date of the 3/18/94 General Order, its application to that Order has been consistently upheld.

***1. Whether the transfer is in the public interest.***

In Staff's view, there are clear benefits that will be received by end-users of the subsidiary companies in Louisiana as a result of this merger, yet at the same time, the end users and Intervenors will not experience any negative public interest concerns. Thus, Staff concluded that this transaction is in the public interest.

***2. Whether the purchaser is ready, willing and able to continue providing safe, reliable and adequate service to the utility's ratepayers.***

There does not appear to be any dispute that AT&T and BellSouth Corp.'s operating companies in Louisiana will continue to provide safe, reliable and adequate service to its ratepayers, as none of these companies' operations will be affected by the holding company transaction. Additionally, due to the nature of this merger, there is no purchaser of the existing certificated companies. Accordingly, the Staff concluded the Applicants have satisfied this condition.

***3. Whether the transfer will maintain or improve the financial condition of the resulting public utility or common carrier ratepayers.***

The financial condition of the holding company will be enhanced as a result of this merger, which will in turn strengthen the financial condition of the certificated entities operating in Louisiana. Accordingly, Staff concluded the Applicants have satisfied this condition.

***4. Whether the proposed transfer will maintain or improve the quality of service to public utility or common carrier ratepayers.***

Staff recommended that the Commission open a docket to modify the existing retail service quality plan adopted by Order No. U-24802-A to the extent necessary to include any additional measures that will help ensure that service quality will be maintained or improved as a result of this merger. Additionally, Staff recommended the Commission, through its existing SQM review docket, consider each of the concerns raised by the CLEC Coalition. Subject to the above, Staff concluded the Applicants have satisfied this condition.

***5. Whether the transfer will provide net benefits to ratepayers in both the short term and the long term and provide a rate making method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short and long term benefit.***

In its discussion with respect to factor one, dealing with the public interest, the Applicants have set forth the benefits that Louisiana consumers will receive as a result of this merger. Additionally, the Applicants have suggested that substantial long-term benefits will result from this merger, particularly with respect to the creation of new services, etc. Accordingly, Staff concluded the Applicants have satisfied this condition.

***6. Whether the transfer will adversely affect competition.***

Currently, the applicants provide little overlapping services in Louisiana, thus the specific impact on competitive offerings in Louisiana will likely be minimal. Nonetheless, as Staff shares some of these same concerns of competition on a national level, Staff recommended the Commission direct Staff to file comments in the FCC proceeding, urging the FCC to conduct a thorough analysis of all of the stakeholders' concerns prior to its approval of the merger. Along with this recommendation, Staff would request that the FCC put into place all conditions it deems necessary to uphold the rights of stakeholders and consumers of all services of the merged entities, including but not limited to wireline, wireless, Internet, voice-over-Internet protocol (VOIP), long distance, and video, during and subsequent to the merger, if approved.

At the direction of the Commission, Staff would further request that the FCC Order explicitly preserve the jurisdiction of the State authorities, including the Louisiana Public Service Commission, to uphold and enforce those conditions the FCC places on the merger. Subject to the above protections, Staff concluded the Applicants have satisfied these conditions.

***7. Whether the transfer will maintain or improve the quality of management of the resulting public utility or common carrier doing business in the state.***

The Applicants have argued that management will improve as a result of this merger, due to the significant efficiencies that will be created through this merger. Additionally, the merger will result in the combination of the expertise of employees of both parent companies and will improve the quality of Cingular's management. Accordingly, Staff concluded the Applicants have satisfied this condition.

**8. *Whether the transfer will be fair and reasonable to the affected public utility or common carrier employees.***

Based on these safeguards in place, and the assurances given by the applicants throughout this filing, Staff concluded this transfer will be fair and reasonable to the employees of the affected entities.

**9. *Whether the transfer would be fair and reasonable to the majority of all affected public utility or common carrier shareholders.***

As set forth in the application, a majority of the shareholders must vote to approve the merger. Further, if the merger is approved, the stockholders of BellSouth Corp. will simply exchange their shares of stock for shares of AT&T Corp. Thus, Staff concluded the transfer will be fair and reasonable to the majority of the affected shareholders.

**10. *Whether the transfer will be beneficial on an overall basis to State and local economies and to the communities in the area served by the public utility or common carrier.***

**11. *Whether the transfer will preserve the jurisdiction of the Commission and the ability of the Commission to effectively regulate and audit the public utility's or common carrier's operations in the State.***

As the Commission has the authority at any time to take any action it needs to ensure the public interest is protected, and this transaction is being consummated at the holding company level, Staff concluded this merger will preserve the jurisdiction of the Commission over the affected companies.

**12. *Whether conditions are necessary to prevent adverse consequences which may result from the transfer.***

**18. *Whether there are any conditions which should be attached to the proposed acquisitions.***

Staff recommended the Commission address a number of the concerns voiced herein through dockets currently pending before the Commission and additional dockets that will be opened in the future. Specifically, Staff suggested the Commission open dockets to address the following issues:

1. In the ongoing SQM review pending in Docket No. U-22252, Subdocket C, the Staff should seek comments on the addition of additional wholesale service quality measurements, with particular emphasis on modifying the *force majeure* provisions to ensure that BellSouth continues to provide parity service in such situations.
2. As mentioned previously with respect to factor 4, Staff should seek comments in pending Docket No. U-24802, Subdocket A regarding the imposition of additional service quality measurements.
3. The Commission should open a global rulemaking docket to address a number of concerns raised by the CLEC Intervenors, particularly with

respect to the creation of a “fresh-look window”, and other *force majeure* related concerns. Staff anticipates any rules adopted by way of this docket would be contained in the *Local Competition Regulations*.

4. Assuming this merger is approved by all required agencies, both on the federal and state level, the Commission should open post-merger a docket to ensure that Louisiana customers, both retail and wholesale, are protected by receiving the benefit of any conditions or concessions available in other jurisdictions.<sup>3</sup> By way of this docket, the Commission can ensure that retail and CLEC customers receive the most pro-competitive options, whether they are offered in the former SBC or BellSouth regions.

In addition to the above recommendations, Staff recommended the Commission include in its statement of non-opposition the standard condition it places on **all** letters of non-opposition: “that this statement of non-opposition of the Commission is done without prejudice to the authority of the Commission to make investigations and require any reasonably necessary change it may legally find to be in the public interest.”

***13. The history of compliance or noncompliance of the proposed acquiring entity or principals or affiliates have had with regulatory authorities in this State or other jurisdictions.***

As this merger is being consummated at the holding company level, there is no history of compliance or non-compliance at issue, as none of the holding companies provide service in Louisiana. Additionally, Staff noted that the Commission has regulations in place that will ensure the certificated entities continue to comply with all applicable Commission Orders, Rules and Regulations. Accordingly, Staff concluded the Applicants have satisfied the requirements of this condition.

***14. Whether the acquiring entity, persons, or corporations have the financial ability to operate the public utility or common carrier system and maintain or upgrade the quality of the physical system.***

***15. Whether any repairs and/or improvements are required and the ability of acquiring entity to make those repairs and/or improvements.***

BellSouth has shown an ability to financially operate its system while operating under price caps, an ability that should only be enhanced as a result of this merger. The Commission also asked and received assurances from BellSouth that it is committed to restoring service to the New Orleans area and communicating with those residents desiring telephone service. By concluding herein that Applicants, particularly BellSouth,

---

<sup>3</sup> Applicants have suggested in response to Staff’s Data Request #16 that they, “reserve the right to argue to the Louisiana PSC why the imposition of similar conditions in Louisiana would be inappropriate or anticompetitive.” Staff’s anticipated docket will provide Applicants an opportunity to make their arguments.

are not required to make any repairs or improvements to the system as a condition of the merger, Staff is in no way absolving BellSouth of the obligations implemented at the April 26, 2006 Commission meeting relative to this repair

***16. The ability of the acquiring entity to obtain all necessary health, safety and other permits.***

All of the existing operating AT&T and BellSouth Corp. operating companies in Louisiana have had the ability to obtain all necessary permits as required in the past. As this merger will occur at the holding level, Staff concluded that there is no reason to dispute Applicants' position that the companies will retain this ability.

***17. The manner of financing the transfer and any impact that may have on encumbering the assets of the entity and the potential impact on rates.***

As this merger will occur at the holding level only, it should have no impact on the rates or assets of any certificated entities in Louisiana. Nonetheless, BellSouth's rates it can charge as an ILEC for regulated telecommunications services are subject to the Consumer Price Protection Plan implemented by Order No. U-24802, Subdocket B. Any request by BellSouth to increase its regulated rates must be filed pursuant to the requirements of that order and would be considered by the Commission in that context. Subject to the above, Staff concluded the Applicants have satisfied this condition.

***Staff's Conclusion***

Subject to the additional recommendations contained in response to factors 4, 12, 14, 15 and 18, Staff concluded that the Commission should issue its non-opposition to the transaction as proposed, with the standard condition placed on all letters of non-opposition that this statement of non-opposition of the Commission is done without prejudice to the authority of the Commission to make investigations and require any reasonably necessary change it may legally find to be in the public interest.

***COMMISSION'S CONSIDERATION***

Staff's Recommendation with respect to the application was considered by the Commission at its July 12, 2006 Business and Executive Session. Commission Blossman made the following motion:

I make a motion to adopt the Staff's Position Statement in this matter, and that this Commission issue a letter of non-opposition to the proposed merger, without prejudice to the authority of this Commission to make investigations and require any reasonably necessary change it may legally find to be in the public interest. I further move that we adopt Staff's recommendations with



respect to factors 4, 12, 14, 15 and 18 of this Commission's General Order dated March 18, 1994. Specifically, those recommendations are as follows:

In the ongoing SQM review pending in Docket No. U-22252, Subdocket C, Staff is directed to seek comments on the addition of additional wholesale service quality measurements, with particular emphasis on modifying the *force majeure* provisions to ensure that BellSouth continues to provide parity service in such situations.

Additionally, Staff shall seek comments in pending docket No. U-24802, Subdocket A regarding the imposition of additional retail service quality measurements.

The Commission shall open a global rulemaking docket to address a number of concerns raised by the 3 CLEC interveners, particularly with respect to the creation of a "fresh-look window", and other *force majeure* related concerns. Staff anticipates any rules adopted by way of this docket shall be included in the *Local Competition Regulations*.

Assuming this merger is approved by all required agencies, both on the state and federal level, the Commission shall open post-merger a docket to ensure that Louisiana customers, both retail and wholesale, are protected by receiving the benefit of any conditions or concessions available in other jurisdictions. By way of this docket, the Commission can ensure that retail and CLEC customers receive the most pro-competitive options, whether they are offered in the former SBC or BellSouth regions.

Finally, and as part of this motion, this Commission wants to make it clear to the applicants that, in issuing a letter of non-opposition, we are in no way absolving BellSouth of its obligations implemented at the April 26, 2006 Commission meeting to report certain information regarding restoration efforts in New Orleans on a weekly basis. This Commission has asked and received assurances from BellSouth that it is committed to restoring service to the New Orleans area and communicating with those residents desiring telephone service. We expect BellSouth to continue to abide by those assurances and we will continue to monitor the reports and will take whatever action may be necessary to ensure that they do.

Commissioner Blossman's motion, as outlined above, was seconded by Commissioner Sittig, with Commissioners Field and Boissiere concurring, and Commissioner Campbell dissenting.

**IT IS THEREFORE ORDERED THAT:**

1. The Commission issues its non-opposition to the proposed merger, without prejudice to the authority of this Commission to make investigations and require any reasonably necessary change it may legally find to be in the public interest.
2. In the ongoing SQM review pending in Docket No. U-22252, Subdocket C, Staff is directed to seek comments on the addition of additional wholesale service quality measurements, with particular emphasis on modifying the *force majeure* provisions to ensure that BellSouth continues to provide parity service in such situations.
3. Staff shall seek comments in pending docket No. U-24802, Subdocket A regarding the imposition of additional retail service quality measurements.
4. The Commission shall open a global rulemaking docket to address a number of concerns raised by the 3 CLEC interveners, particularly with respect to the

creation of a “fresh-look window”, and other *force majeure* related concerns. Staff anticipates any rules adopted by way of this docket shall be included in the *Local Competition Regulations*.

5. Assuming this merger is approved by all required agencies, both on the state and federal level, the Commission shall open post-merger a docket to ensure that Louisiana customers, both retail and wholesale, are protected by receiving the benefit of any conditions or concessions available in other jurisdictions. By way of this docket, the Commission can ensure that retail and CLEC customers receive the most pro-competitive options, whether they are offered in the former SBC or BellSouth regions.
6. This Commission reiterates that, in issuing a letter of non-opposition, is in no way absolving BellSouth of its obligations implemented at the April 26, 2006 Commission meeting to report certain information regarding restoration efforts in New Orleans on a weekly basis. The Commission has asked and received assurances from BellSouth that it is committed to restoring service to the New Orleans area and communicating with those residents desiring telephone service. BellSouth is expected to continue to abide by those assurances and we will continue to monitor the reports and will take whatever action may be necessary to ensure that they do.

**BY ORDER OF THE COMMISSION**  
**BATON ROUGE, LOUISIANA**  
August 2, 2006

**/S/ JAMES M. FIELD**  
**DISTRICT II**  
**CHAIRMAN JAMES M. FIELD**

**/S/ JACK “JAY” A. BLOSSMAN**  
**DISTRICT I**  
**VICE CHAIRMAN JACK “JAY” A. BLOSSMAN**

**/S/ C. DALE SITTIG**  
**DISTRICT IV**  
**COMMISSIONER C. DALE SITTIG**

**/S/ FOSTER L. CAMPBELL**  
**DISTRICT V**  
**COMMISSIONER FOSTER L. CAMPBELL**

**LAWRENCE C. ST. BLANC**  
**SECRETARY**

**/S/ LAMBERT C. BOISSIERE, III**  
**DISTRICT III**  
**COMMISSIONER LAMBERT C. BOISSIERE, III**