

**Commonwealth of Kentucky
Before the Public Service Commission**

In the Matter of:

JOINT APPLICATION FOR APPROVAL)	
OF THE INDIRECT TRANSFER OF)	
CONTROL RELATING TO THE)	CASE NO. 2006-00136
MERGER OF AT&T, INC. AND)	
BELLSOUTH CORPORATION)	

ATTORNEY GENERAL'S INITIAL REQUEST FOR INFORMATION

Comes now the intervenor, the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, and submits this Initial Request for Information to AT&T, Inc., ("AT&T") and Bellsouth Corporation ("Bellsouth") [hereinafter jointly referred to as the "Joint Applicants"] to be answered by the date specified in the Commission's Order of Procedure, and in accord with the following:

- (1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.
- (2) Please identify the witness who will be prepared to answer questions concerning each request.
- (3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional

information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the Joint Applicants have objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

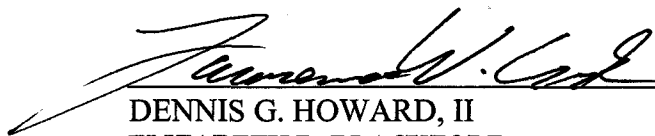
(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company, please state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer;

and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

(10) Please provide written responses, together with any and all exhibits pertaining thereto, in one or more bound volumes, separately indexed and tabbed by each response.

Respectfully submitted,
GREGORY D. STUMBO
ATTORNEY GENERAL

A handwritten signature in black ink, appearing to read "Dennis G. Howard, II", written over a horizontal line.

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Submission of Filing in Paper Medium

Per instructions 11 and 22 of the Commission's 12 April 2006 order, Counsel submits the original of the foregoing document, in paper medium, to be filed by hand delivery on 24 April, 2006 to:

Beth O'Donnell
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601


Assistant Attorney General

Certification Regarding Electronic Filing

Pursuant to instructions 11 and 13 of the April 12, 2006 order, counsel certifies submission of the foregoing document in electronic medium. Pursuant to instruction 15, he certifies that: (a) the electronic version of the filing is a true and accurate copy of the original document filed in paper medium; (b) he has, by electronic mail, notified the Commission and the following applicable parties that the electronic version of the filing has been transmitted to the Commission: E. P. Steiner (eppsteiner@att.com); Holland McTyiere (hnm@gdm.com); Sonia Daniels (soniadaniels@att.com); Amy Daugherty (aedougherty@ky.gov); and (c) the date of the electronic filing is April 21, 2006.


Assistant Attorney General

**Attorney General's Initial Request for Information
to the Joint Applicants
Case Number 2006-00136**

1. Please provide the names of the personnel who will comprise the executive management of the Post-Merger Corporate Entity ("PMCE") that will result from the contemplated merger, and describe the financial, technical and managerial abilities they possess enabling them to engage in the telecommunications industry.
 - a. Please provide the total employee count of AT&T and Bellsouth immediately prior to the contemplated transaction, and provide an estimated employee count following the transaction, extending to 12 months following the date of the contemplated transaction.
 - b. Please state whether the duties of any employee regarding the PMCE's financial, technical or managerial functions will be outsourced, and if "yes," specifically identify the nature of the job responsibilities to be outsourced and the name of the person or entity who/which will assume the responsibilities.
 - c. State whether any AT&T and Bellsouth employees who are employed in Kentucky will be laid off or otherwise terminated as a result of the contemplated transaction, and if so, provide, with as much accuracy as possible, the number of employees to be so affected.
 - d. Please provide the total number of employees working in any and all AT&T and Bellsouth customer service centers, regardless of location, dedicated to addressing inquiries and other needs of customers located in Kentucky. Please provide the total number of such employees as of the date of your response to this request, and an estimate for the number of such employees following the completion of the contemplated transaction.
 - e. Please provide a copy of any existing agreement, whether a collective bargaining or otherwise, between both of the Joint Applicants and their respective union employees.
2. Please identify all of the Joint Applicants' subsidiaries and affiliates that will exist following the contemplated transaction, and state with specificity whether each one will be subject to regulation by:

- a. the Kentucky Public Service Commission;
 - b. any other state utility commission, and if so, the name of the commission(s);
 - c. the Federal Communications Commission; and
 - d. any other state or federal agency.
3. Please state what benefits the Joint Applicants hope to achieve as a result of the contemplated transaction.
 - a. Will the transaction in any way facilitate the Joint Applicants' ability to charge for priority delivery of internet content?
4. Did, or will, the Joint Applicants have to seek approval from the Federal Communications Commission regarding the contemplated transaction? If so, please submit copies of any and all filings submitted to, and responses from the FCC in this regard, including but not limited to any findings the FCC may have made regarding:
 - a. whether the contemplated merger is in the public interest;
 - b. the quality of and rates for telecommunications services;
 - c. industry trends and needs;
 - d. the impact of the proposed merger on spectrum use and efficiency;
 - e. license holding diversity;
 - f. national security, law enforcement, and public safety concerns.
5. Did or will the FCC seek as a condition to the transaction, enforcement over issues pertaining to "net neutrality?" (For purposes of this document and this discovery request, the term in quotation marks is defined as the concept that owners of telephonic and/or cable networks should not be able to dictate or place restrictions upon how a consumer uses the internet, or discriminate against any internet content, regardless of the source).
6. Do either of the Joint Applicants currently employ multi-tiered pricing schemes for internet usage? If not, do either of them deliver internet traffic on a best-efforts basis? Does the PMCE anticipate employing the use of multi-tiered pricing schemes following the contemplated transaction?
7. Do either of the Joint Applicants anticipate charging internet content providers a fee based on volume transmitted over the Joint Applicants' network(s)?

8. Describe in detail the PMCE's monetization strategies for internet usage accessed by both wireless and wireline modalities.
- a. Will the PMCE charge competitors for use of the PMCE's network?
If so:
 - (i) Does the PMCE envision raising fees of any type or sort it charges to competitors and resellers for access to the PMCE's network?
 - (ii) Please describe the factors contemplated and the basis for raising fees.
 - (iii) Will the PMCE prohibit competitors' access to the PMCE network? If so, describe in detail how this will enhance competition in the telecommunications industry.
 - b. Will the PMCE allow consumers to use the internet as they themselves choose, and to access the internet via whatever devices they themselves choose? If so, does the PMCE contemplate selling on an exclusive basis those internet access devices?
 - c. If the PMCE will not allow consumers to use the internet as they themselves choose, by devices of their own choice, then:
 - (i) please describe the factors the PMCE did or will contemplate to limit or circumscribe access; and
 - (ii) describe in detail how such actions will enhance competition in the telecommunications industry.
 - d. Will the PMCE attempt to tier charges for internet usage based on the type of device used to access the internet? If so, describe in detail how such actions will enhance competition in the telecommunications industry.
9. Please provide copies of any and all documents the Joint Applicants have filed with the Securities and Exchange Commission regarding the contemplated transaction, to the extent not already provided.
10. Please state whether the Joint Applicants will agree to make available for inspection copies of any and all documents they have filed with any and all other regulatory bodies, whether state or federal, regarding the contemplated transaction.
11. Please provide copies of any and all reports and other documents identifying synergies expected to result from the contemplated transaction.

- a. Separately identify any synergies affecting the Joint Applicants' Kentucky-based operations;
 - b. State whether any synergy savings will be shared with the Joint Applicants' customers, and if so, whether this includes Kentucky customers, and how much.
12. Please provide copies of any and all reports and other documents identifying economies of scale or scope expected to result from the contemplated transaction.
 - a. Identify any economies of scope or scale affecting the Joint Applicants' Kentucky-based operations;
 - b. State whether any savings related to economies of scale or scope will be shared with the Joint Applicants' customers, and if so, how much.
13. Please state whether the Joint Applicants or any of their subsidiaries or affiliates sustained any damage to their networks and/or other infrastructure resulting from hurricane-related losses in 2005. If so, please:
 - a. provide a brief description of the damage;
 - b. state the amount of damage in U.S. dollars;
 - c. state whether such losses will have a financial impact on any of the Joint Applicants' Kentucky-based holdings, and if so, describe the impact;
 - d. state whether any such losses or any portion thereof were covered by insurance, and provide a percentage of insured vs. uninsured losses;
 - e. state whether any such losses will, or are likely to be shared with any of the Joint Applicants' (including the PMCE's) ratepayers.
14. Please state whether any of the PMCE's executive management, and members of its proposed board of directors are members, officers, partners, directors of, or have a controlling interest in, any business entity engaged in the telecommunications industry other than the Joint Applicants, and if so, identify them by name and by type of interest.
15. Please state whether the PMCE will engage in non-regulated activities in any location. If so, please provide:

- a. the nature of the activity;
 - b. the location of the activity;
 - c. a breakdown by percentage of the amount of non-regulated activity and regulated activities in which the PMCE will engage; and
 - d. the amount of revenue derived from non-regulated activities.

16. Please identify, in detail, any and all tax savings the Joint Applicants expect to result from the contemplated transaction, and provide any relevant quantifications.

17. Please state whether Bellsouth currently has any deferred tax accounts on its balance sheets. If "yes," please identify the account(s), the amount carried therein, and provide a summary of the nature of the balance.
 - a. For each deferred tax balance identified above, please state what impact the contemplated transaction will have on the account (e.g., will the contemplated transaction result in a loss of any deferred tax credits?).

18. Please state whether any of the Joint Applicants' employees, officers, directors, consultants, or contractors will receive, directly or indirectly, any bonus, stock option, and/or other remuneration of any type or sort resulting from the contemplated transaction. If so, please identify the person, the method of remuneration, whether directly or indirectly, whether it is deferred, and the dollar value thereof.

19. Do the Joint Applicants agree that there are two categories of costs for the proposed transaction, namely: (1) costs-to-achieve the transaction (e.g., due diligence reports, legal counsel, etc.); and (2) costs-to-achieve cost savings in the post-transaction structure (e.g., systems integration, etc.)? If not, please identify the categories and provide a definition. Regardless of the answer, please provide the following:
 - a. For the costs-to-achieve the transaction, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective shareholders, and those costs that are allocated to or the responsibility of their respective ratepayers. Include any allocation methodologies.
 - b. For the costs-to-achieve cost savings, explain how the Joint Applicants determine the costs that are allocated to or the

responsibility of their respective shareholders, and those costs that are allocated to or the responsibility of their respective ratepayers. Include any allocation methodologies.

- c. For the costs-to-achieve the transaction, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective non-regulated operations. Include any allocation methodologies.
- d. For the costs-to-achieve cost savings, explain how the Joint Applicants determine the costs that are allocated to or the responsibility of their respective regulated operations. Include any allocation methodologies.
- e. Do the Joint Applicants agree that there are certain costs associated with the contemplated transaction that are attributable solely to the process of obtaining the approval of the transaction (e.g. legal counsel for the regulatory proceedings)?
- f. Do the Joint Applicants agree that they will obtain certain cost savings post-transaction that do not require the expenditure of costs-to-achieve those savings? (For example, AT&T and Bellsouth both presently prepare their own respective annual reports to shareholders, to the FCC, and to utility commissions in various states, and there is an expense associated with the preparation of such a report that will be avoided post-transaction due to the fact that only one report will be prepared.) If not, then is it the Joint Applicants' position that all cost savings associated with this transaction require spending?
- g. Do the Joint Applicants consider the reduction of a company's or unit's operating loss a cost savings?
- h. Please supply an itemized schedule that shows the cost-to-achieve the transaction by year for as many years as your projections provide. (This is a request for a schedule that shows the estimated costs by year.)
- i. For the schedule requested under sub-part h (the prior question), please identify by year for as many years as your projections provide the following:

- (1) the assignment of costs to each of the Joint Applicants' shareholders;
 - (2) the assignment of costs to each of the Joint Applicants' ratepayers; and
 - (3) the breakdown of the assignment of costs between regulated and non-regulated operations of each of the Joint Applicants.
 - j. Please supply an itemized schedule that shows the costs-to-achieve the costs savings post-transaction by year for as many years as your projections provide. (This is a request for a schedule that shows the estimated costs by year.)
 - k. For the schedule requested under sub-part j (the prior question), please identify by year for as many years as your projections provide the following:
 - (1) the assignment of costs to each of the Joint Applicants' shareholders;
 - (2) the assignment of costs to each of the Joint Applicants' ratepayers; and
 - (3) the breakdown of the assignment of costs between regulated and non-regulated operations.
 - l. Please supply an itemized schedule that shows the cost savings associated with this acquisition for as many years as your projections provide. (This is a request for a schedule that shows the estimated cost savings by year.)
 - m. For the schedule requested under sub-part l. (the prior question), please identify by year for as many years as your projections provide the following:
 - (1) the assignment of costs to each of the Joint Applicants' shareholders;
 - (2) the assignment of costs to each of the Joint Applicants' ratepayers; and
 - (3) the breakdown of the assignment of costs between regulated and non-regulated operations.
20. For each category of cost savings, did both of the Joint Applicants determine the allocation percentages to separate out the non-regulated cost savings from the regulated costs savings? For example, did the Joint

Applicants determine the amount of total staffing cost savings to allocate to regulated operations and the amount to allocate to non-regulated operations?

21. For each category of cost savings, identify the allocation process, including the factors, for allocating costs between regulated and non-regulated operations.
22. For each category of cost savings, identify the corresponding amount of cost savings allocated to non-regulated operations for that category.
23. Please provide a copy of any and all due diligence report(s) conducted.
24. In the course of conducting their due diligence reviews, did the Joint Applicants identify any facts or circumstances that would have a material adverse effect on their customers?
25. Please provide all minutes of any meetings held: (a) between the shareholders and the company management; and (b) between the board of directors and the company management, of each of the Joint Applicants pertaining to the contemplated transaction.
26. Will the contemplated transaction result in any changes in accounting principles for either of the Joint Applicants, the PMCE, or any of their subsidiaries or affiliates? If yes, please summarize the change(s).
27. Do the Joint Applicants anticipate any substantive changes in any existing contracts of the Joint Applicants with other vendors (e.g., engineering, information technology, maintenance, etc.)? If so, please summarize the changes.
28. Do the Joint Applicants anticipate entering any new contracts as a consequence of the contemplated transaction? If so, will any of the entities with whom the Joint Applicants will enter into said contract(s) be affiliated in any way with the Joint Applicants, or any of their employees, stockholders, officers, contractors, consultants, or directors?
29. Provide the name and position of the person(s) who prepared each Exhibit to the application filing materials.
30. Please provide a copy of any and all materials, including but not limited to transcripts of presentations, recordings or notes of presentations, or

other information, regarding any and all financial analyses concerning the transaction.

31. Please state whether any of the Joint Applicants' subsidiaries or affiliates (including those of the PMCE) located in Kentucky, or any other state, will as a condition of the contemplated transaction be required to guarantee the debt of any other subsidiary, affiliate, or holding company of the Joint Applicants. If "yes," please provide complete details.
 - a. If "yes," are any of the terms to which the Kentucky-based subsidiaries or affiliates of Joint Applicants have agreed, or will agree, different in any way from the terms agreed to by subsidiaries or affiliates based in other states? If so, explain in detail.

32. Please state whether any of the Joint Applicants' subsidiaries or affiliates (including those of the PMCE) located in Kentucky, or any other state, will as a condition of the contemplated transaction be required to grant liens against their own assets in favor of any lender(s) providing financing or any portion of financing necessary for the contemplated merger to occur. If "yes," please provide complete details.
 - b. If "yes," are any of the terms to which the Kentucky-based subsidiaries or affiliates of Joint Applicants have agreed, or will agree, different in any way from the terms agreed to by subsidiaries or affiliates based in other states? If so, explain in detail.

33. Will the contemplated transaction have any ramifications for any agreements with competing local exchange carriers? If so, please explain in detail.

34. Will the contemplated transaction have any ramifications upon the jurisdiction or authority of the Kentucky Public Service Commission over the Joint Applicants and the PMCE?

35. In the application and accompanying testimonies, the Joint Applicants make certain assertions. In the event the Kentucky Public Service Commission approves the Joint Applicants' application, would the Joint Applicants agree and adhere to the following commitments (note: this question should not be construed as the Attorney General's acquiescence to the contemplated transaction):
 - a. The PMCE will, regardless of its location, provide specific company contacts and work with the Attorney General's Office,

Commonwealth of Kentucky, on any and all complaints which the Attorney General may receive. Furthermore, specific protocol and timeframes shall be established by both parties to resolve complaints or disputes expeditiously.

- b. The Joint Applicants will provide copies of all applications, notices, final approval orders, or other regulatory notifications regarding the contemplated transaction, received from the SEC, the Federal Communications Commission, and any and all other regulatory bodies including but not limited to state utility commissions having jurisdiction over any of the Joint Applicants, as well as from any and all regulatory bodies, both federal and state, that will have jurisdiction over the PMCE, to the extent that these documents have not already been provided in this case.
- c. Within 30 days of the date of the final order in this case, the Joint Applicants will file a report with the Kentucky Public Service Commission detailing their actual expenditure levels for economic development activities and civic and charitable activities for the past three calendar years. The report will also include the current budgets for the same activities for the years 2006 through 2007, and will include estimates or projections for any such sums the PMCE will expend. Further, Joint Applicants will provide the Attorney General with a copy of such report.
- d. The contemplated transaction will not impair, impede, nor prohibit the ability and capabilities of the Joint Applicants' Kentucky-based subsidiaries and affiliates, and the PMCE from meeting their obligations to provide adequate, efficient and reasonable service to their Kentucky customers.
- e. The contemplated transaction will not detract from the benefits that customers of the Joint Applicants currently receive.
- f. The contemplated transaction will not in itself result in higher rates or higher charges of any type or sort for the Joint Applicants' Kentucky-based customers.
- g. To the extent required by law, the Joint Applicants agree to seek approval from the Kentucky Public Service Commission prior to transferring any asset currently based in Kentucky having an original book value in excess of \$5 million.

- h. Costs for the contemplated transaction shall not be pushed down to Kentucky ILECs, nor in any manner to any of the Joint Applicants' or the PMCE's ratepayers.
- i. No change in control payments will be allocated to the Joint Applicants' Kentucky ratepayers.
- j. Any costs associated with early termination of any of Joint Applicants' staff responsible for serving Kentucky customers, regardless of the staff's location, will not be levied against their Kentucky ratepayers.
- k. Any additional administrative costs incurred in order to comply with the financial and accounting standards of any other regulatory body, whether federal or state, will not be borne by Kentucky ratepayers.
- l. The Joint Applicants commit to maintaining a sound and constructive relationship with those labor organizations that may represent certain of their employees; to remain neutral respecting an individual's right to choose whether or not to be a member of a trade union; to continue to recognize the unions that currently have collective bargaining agreements with the Joint Applicants (as well as those unions that could or may have agreements with the PMCE), and to honor those agreements.
- m. The Joint Applicants agree to filing with the Commission and the Attorney General copies of their annual reports (as well as those of the PMCE) issued to their respective shareholders.
- n. Before implementing any management practice, the Joint Applicants commit to taking into full consideration the related impacts on levels of customer service and customer satisfaction, including any negative impacts resulting from any workforce reductions.
- o. The Joint Applicants agree that the contemplated transaction will not cause any material adverse change in their financial condition, nor that of the PMCE.
- p. The distribution of any of Joint Applicants' assets that provide

service to both wireline and wireless business, and related transactions, will not have a substantial or long-term effect on the PMCE.

- q. Any changes in the centralized services provided to the Regulated Entities by the PMCE will not cause any additional costs to the Regulated Entities.
36. Please provide pages 76, 78, 80-81, 83, and 85 of Bellsouth's Form 10-K filed February, 28, 2006.
37. Please provide a complete copy of any filings associated with the contemplated merger made pursuant to the Hart-Scott-Rodino Antitrust Improvements Acts of 1976 (15 U.S.C.A. § 18a; together with regulations promulgated thereunder at 16 CFR §§ 801-803)(hereinafter jointly referred to as "the Act").
- a. In the event the U.S. Department of Justice Antitrust Division determines that further inquiry is necessary and pursuant to the Act issues a second request for documents to the Joint Applicants, will the Joint Applicants (and the PMCE) agree to supply the Kentucky PSC and the Kentucky Attorney General's Office with copies of any documents produced in response to such a request, regardless of when the Joint Applicants/ PMCE make their (its) response?
38. Please provide the current bond rating for each of the Joint Applicants' together with any projected bond ratings for the PMCE, issued by the three major bond rating agencies.
39. What effect will the contemplated merger have on the ability of Kentucky consumers to purchase unbundled phone services from the PMCE?
- a. Will the PMCE always allow consumers, including Kentuckians, the option of purchasing basic telephone service without options?
 - b. If your answer to a., above is "yes," state the effect the contemplated merger will have on pricing for such basic services. Will pricing be raised, or lowered?
40. Will the contemplated merger have an impact on the ability of the PMCE to obtain capital? Will the \$22 billion in extra debt AT&T is assuming as a

result of the contemplated merger have any negative ramifications for the PMCE's access to capital? Describe in detail.

41. Describe the impact the contemplated merger will have on Cingular's wireless plan fees. Are fees likely to increase or decrease as a result of the contemplated merger? Will the PMCE agree that Cingular will not impose any additional charges as a result of the contemplated merger on Kentucky customers?
42. In some European nations, consumers pay \$35 - \$40 (U.S. dollars) per month for combined wireline, wireless and video services. Does the PMCE envision similar pricing for similar services offered to its Kentucky based customers? If not, please explain in detail.
43. The Joint Applicants' filing states that it intends to market video services over both wireline and wireless modalities. Will the PMCE place any restrictions on the content of video themes delivered to customers, especially minors? If so, please describe in detail, especially as they relate to minors' viewing of video products via wireless modalities.
44. Describe the PMCE's strategy for developing the 2.3 GHz and 2.5 GHz bands.
 - a. How much of these bands will the PMCE control in the top 100 markets?
 - b. How much of these bands will the PMCE control in Kentucky markets?
45. Will the PMCE give any assurances that it will not attempt to block or in any manner disrupt VOiP transmissions from other telecommunications providers utilizing the PMCE's network? Describe in detail.
46. Will the PMCE give clear and conspicuous notice to Kentucky consumers regarding any change in services resulting from the merger?