CWA Statement

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

Joint Application for Approval of the Indirect Transfer of Control Relating to the Merger of AT&T Inc. and BellSouth Corporation	: : : : : : : :	Case No. 2006-00136

DIRECT TESTIMONY
OF
DEBBIE GOLDMAN

On Behalf of

Communications Workers of America

June 2, 2006

Introduction and Summary

Q. Please state your name, business address, employer and position.

A. My name is Debbie Goldman. My business address is 501 Third St. N.W., Washington, D.C. 20001. I am employed as a Research Economist for the Communications Workers of America ("CWA").

Q. Please describe your educational background and work experience.

A. I received a Bachelors Degree in History from Harvard University in 1973, a Masters Degree in Public Policy from the University of Maryland in 1996, and a Masters Degree in Education from Stanford University in 1975. I have been employed as a Research Economist at CWA since 1992.

Q. What are the duties and responsibilities of your present position?

A. My primary responsibilities include telecommunications policy, financial analysis, and regulatory intervention. I have provided testimony and formal comments on behalf of CWA in more than 55 proceedings before the Federal Communications Commission ("FCC"), the U.S. Department of Justice, and state regulatory proceedings.

Q. What is the purpose of your testimony?

A. I am presenting testimony on behalf of CWA. My testimony will demonstrate that the proposed merger between AT&T and BellSouth could result in the loss of good jobs in the state of Kentucky, with negative consequences for the quality of service provided by BellSouth to Kentucky consumers. To protect against such a possibility and to ensure that the proposed merger is consistent with the public interest, the Kentucky Public Service Commission ("Commission") should condition merger approval upon the following conditions. First, the Joint Applicants should commit to maintain the highest standards of service quality. Second, the Joint Applicants should commit to upgrade every central office in the state for DSL capability within two years. Third, the Joint Applicants should be required to maintain employment levels in the state of Kentucky for at least three years after the merger closes at the same level as on the date the merger closes. Fourth, the Joint Applicants should commit that the merged entity shall not close any technical operations, call centers, or other facilities in the state of Kentucky for three years after the merger closes.

The Proposed Merger Could Result in the Loss of Good Jobs in Kentucky, with Negative Impact on Service Quality

Q. What is the legal standard for Commission review of the proposed transaction?

A. According to Kentucky statute, no person may acquire or transfer control or ownership of a utility without prior approval by the Commission. The Commission must, among other things, determine that the acquisition is “consistent with the public interest.” The Commission may impose terms and conditions it deems necessary or appropriate to protect the public interest. KRS 278.020(5) and KRS 278.020(6).

Q. According to the Joint Applicants, what are the public interest benefits of the proposed merger?

A. According to the Joint Applicants, the proposed merger will improve the quality and variety of communications services offered to the citizens of Kentucky, including converged wireline/wireless services, more rapid deployment of facilities-based competitive video services in Kentucky, enhanced disaster recovery, and in general better and more efficient service. Despite anticipated staff reductions, the Joint Applicants claim that the proposed merger will enhance the quality of service provided to BellSouth customers in Kentucky. (Joint Application for Approval of the Indirect Transfer of Control Relating to the merger of AT&T Inc. and BellSouth Corporation ("Application"), pp. 14-22). CWA members look to share in this anticipated growth.

Q. How many employees does CWA represent at BellSouth and Cingular in the state of Kentucky, regionally, and across the nation?

A. CWA represents virtually all of the occupational employees at BellSouth and Cingular in Kentucky, including approximately 2,100 BellSouth employees and 950 Cingular employees. These are good jobs that pay middle-class wages, good benefits, and provide career employment in communities throughout Kentucky. CWA represents more than 42,000 BellSouth employees in the nine-state region. Nationally, CWA represents more than 97,000 AT&T employees and more than 36,000 Cingular employees.

Q. Does CWA represent any other employees in Kentucky?

A. Yes. CWA represents an additional 4,500 employees in Kentucky.

Q. What impact will the proposed merger have on employment in the state of Kentucky?

A. The Joint Applicants state that the merger will result in the loss of 10,000 jobs nationally after the merger. The Joint Applicants do not tell the Commission how many of the job cuts will be in Kentucky, but merely ask the Commission to believe their claim that the merger will not "harm employment in Kentucky." (Application, p 3-4; "CWA Exh. 1.

"BellSouth Employee FAQs related to the BellSouth-AT&T Merger, updated as of March 31, 2006," p.2.) The Joint Applicants project that half of the $13.9 billion in operating expense synergies will result from headcount reduction.[1] (CWA Exh. 2. "AT&T, BellSouth Merger: Substantial Synergy Opportunities, Strengthened Growth Platforms in Wireless, Business, and Integrated Services")

Q. Have the Joint Applicants provided the CWA with any information regarding the impact of the proposed merger on jobs in Kentucky or elsewhere?

A. Consistent with CWA's duty and obligation to represent our members, CWA has discussed the employment impact of the proposed merger with BellSouth and AT&T. Consistent with the Joint Applicants' claims that the proposed merger will result in growth, delivery of new and better services, and enhanced service quality, CWA has sought assurance that the projected merger would not result in loss of jobs for our members in Kentucky and elsewhere. We have also sought assurance that, as BellSouth becomes part of a national company, the merged entity will not close facilities and transfer work out-of-state.

Q. Have the Joint Applicants provided CWA with any commitments regarding employment security?

A. To date, BellSouth and AT&T have not provided CWA with any commitments regarding the employment security of our members.

[1] The Joint Applicants project $18 billion in net synergies, consisting of 77 percent ($13.9 billion) in operating expense synergies, 9 percent ($1.6 billion) in revenue synergies, and $2.5 billion in CapEx synergies. *See* CWA Exh. 2. AT&T, Bellsouth Merger: Substantial Synergy Opportunities, Strengthened Growth Platforms in Wireless, Business, and Integrated Services.

Q. The Joint Applicants claim that any job loss will come from attrition. Does this provide any reassurance to CWA?

A. No, it does not. CWA is particularly concerned that the merger of BellSouth into a national company could result in the closing of technical operations, call centers, or other facilities in Kentucky and movement of work out of state. This would result in the destruction of good, family-supporting jobs in communities throughout the state of Kentucky, and impact the quality of service provided to customers in Kentucky.

Q. What impact could reduction in employment or closing of facilities have on Kentucky consumers?

A. Quality service requires adequate staffing by career, trained employees. It is particularly important that the Commission address service-impacting employment issues in the context of this merger to ensure that the merged entity deploys sufficient, well-trained staff who are experienced servicing Kentucky customers.

Precedents from Other AT&T Mergers

Q. Is there precedent for CWA's concern that the merged entity could close in-state facilities and move work out of Kentucky?

A. Yes. We need only look at what happened after SBC bought the "old" AT&T. During that merger review process, SBC and AT&T assured state Commissions that the merger would create a much stronger job outlook for the combined organization and would have a positive impact on employment in the states. Six months after the closing of the merger, AT&T announced a reduction-in-force, including the closure of consumer call centers in

Pennsylvania, Arizona, and Massachusetts and 25 percent reduction in positions at the TRS relay center for the hard of hearing in Pennsylvania.

Q. How did the Pennsylvania Public Utility Commission ("PUC") respond to AT&T's announced reduction-in-force ("RIF") and call center closing?

A. The Pennsylvania PUC opened an investigation, noting that "utility RIFs may impact the safe and reliable service to the public required by law." (CWA Exh. 3. Pennsylvania Public Utility Commission, In Re: Informal Investigation of AT&T, Inc., Order, May 19, 2006) Prior to an Order being entered, Pennsylvania Governor Rendell and AT&T announced in the media that AT&T had committed to forego the RIFs and call center closing.

Merger Conditions

Q. Should the Commission impose conditions in approving the AT&T/BellSouth merger, and if so, what conditions do you recommend?

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

Q. Are there precedents for these conditions imposed by this Commission?

A. Yes. Just last month, the Kentucky Commission approved the spin-off of Alltel's wireline properties and merger with Valor Communications Group to form Windstream Communications. In the Order approving that transaction, the Commission noted that the Applicants agreed that "(N)o reduction in the employee headcount in Kentucky would occur as a result of this transaction." Further, the Commission conditioned merger approval upon a number of conditions, including but not limited to, the requirement that Windstream and its Kentucky ILECs "employ adequate resources to meet the quality of service standards established by the Commission" and continue investment in high-speed Internet facilities in the state. (In the Matter of Application for Approval of the Transfer of Control of Alltel Kentucky, Inc. and Kentucky Alltel, Inc., Order ("KY Alltel Order"), Case No. 2005-00534, May 23, 2006).

In 2002, this Commission imposed a number of conditions on the transfer of Verizon properties to Alltel, including a requirement that Alltel hire an additional 240 customer service workers to ensure quality service, meet stringent service quality standards, and expand DSL deployment. (In the Matter of Petition by Alltel Corporation to Acquire the Kentucky Assets of Verizon South, Incorporated, Case No. 2001-00399, Feb. 13, 2002).

In 1999, this Commission also imposed a number of conditions in approving the Bell Atlantic/GTE merger, including, but not limited to, a $222 million capital investment program over three years, requirements to expand deployment of advanced services, and mandates to meet high levels of service with reporting requirements. In the Order approving the transaction, the Commission affirmed the Applicants' statement that the merger would result in "very little, if any, impact on the number of hourly employees." (In the Matter of Joint Application of Bell Atlantic Corporation and GTE Corporation for Order Authorizing Transfer of Utility Control, Order, Case No. 99-296, Sept. 7, 1999).

Q. Could you provide precedents from other states for conditions related to employment level guarantees?

A. Many state Commissions have conditioned merger approval upon commitments to maintain or grow employment based on the understanding that adequate staffing is necessary to protect the public interest in quality, reliable service. SBC made such commitments to state Commissions in each of its prior mergers. In approving the SBC purchase of Ameritech in 1999, the Ohio PUC required then-SBC (now "AT&T") to maintain in-state employment for two years and the Illinois Commerce Commission required SBC to maintain regional employment at its current level. (Before the Public Utilities Commission of Ohio, In the Matter of the Joint Application of SBC Communications Inc, SBC Delaware Inc., Ameritech Corporation, and Ameritech Ohio for Consent and Approval of a Change of Control, Opinion and Order, Case No. 98-1082-TP-AMT, April 8, 1999 ("Ohio AT&T/SBC Order"); "Ill. Conditionally Okays SBC-Ameritech Merger," *State Telephone Regulation Report,* Oct. 1, 1999, 1-3, 5.) When the California PUC approved SBC's purchase of Pacific Telesis in 1997, the Commission required SBC to create at least 1,000 new jobs in California. (Before the Public Utilities Commission of the State of California, In the Matter of the Joint Application of Pacific Telesis Group (Telesis) and SBC Communications, Inc. (SBC) for

SBC to Control Pacific Bell (U 1001 C), Which Will Occur Indirectly as a Result of Telesis Merger With a Wholly Owned Subsidiary of SBC, SBC Communications (NV) Inc., Decision 97-03-067, March 31, 1997 ("SBC/PT Decision")). Further, when SBC purchased Southern New England Telephone (SNET) in 1998, the Connecticut Department of Public Utility Control confirmed SBC's commitment to create at least 1,400 more jobs in the state. (State of Connecticut Department of Public Utility Control, Joint Applications of SBC Communications Inc. and Southern New England Telecommunications Corporation for a Change of Control, Decision, Docket No. 98-02-20, Sept. 2, 1998 ("SBC/SNET Decision")) (*See also* CWA Exh 4.)

Additional employment guarantees required by state Commissions in other large mergers include the New York Public Service Commission's requirement that the merged Bell Atlantic/NYNEX hire 750 to 1,000 new employees; the Illinois Commerce Commission requirement that the merged Bell Atlantic/GTE maintain employment levels; and the New York PSC's requirement that Global Crossing/Frontier maintain workforce levels. (State of New York Public Service Commission, Petition of the New York Citizens Utility Board et al for an Investigation of the Proposed Merger of NYNEX Corporation and Bell Atlantic Corporation, Order Approving Proposed Merger Subject to Conditions, Case 96-C-0599, March 21, 1997 ("NY Bell Atlantic-NYNEX Order"); State of New York Public Service Commission, Joint Petition of Global Crossing, Ltd. and Frontier Corporation for Approval of the Acquisition by Global Crossing Ltd. of all the Outstanding Shares of Frontier Corporation's Common Stock, Order Approving Petition, Case 99-C-0530, Dec. 1, 1999; Illinois Commerce Commission, GTE Corporation and Bell Atlantic Corporation Joint Application for the Approval of a Corporate

Reorganization Involving a Merger of GTE Corporation and Bell Atlantic Corporation, Order, 98-0866, Oct. 29, 1999 ("Illinois Bell Atlantic-GTE Order")).

Q. Are there precedents regarding closing of facilities and movement of work out of state?

A. When Bell Atlantic and GTE merged in 2000 to create a national company, CWA signed a Memorandum of Agreement in which the merged company, Verizon, agreed that it would not move more than 0.5 percent of jobs on an annual basis out of a designated geographic area (defined as either a metropolitan area, a portion of a state, or the entire state, depending on the geographic area). Subsequently, CWA and Verizon renegotiated the Memorandum of Understanding to permit movement of up to 0.7 percent of jobs on an annual basis out of the designated geographic area. This agreement has provided Verizon flexibility, while preserving community jobs and careers for Verizon occupational employees.

Q. Has CWA proposed a limitation on movement of work in discussions with BellSouth and AT&T?

A. Yes, but we have not made progress.

Q. Could you provide precedents from other states for conditions related to broadband deployment and network investment?

A. Yes. The list is a long one. I provide these examples that are illustrative although not exhaustive. The California PUC required the merged AT&T/SBC to establish a $60 million infrastructure fund for emerging broadband technologies ("SBC/PT Decision").

The Ohio PUC required SBC to invest $1.3 billion in it local network for five years after the SBC/Ameritech merger ("Ohio AT&T/SBC Order").

In approving the Bell Atlantic/GTE merger, the Illinois Commerce Commission required a $270 million three-year network investment (Illinois Bell Atlantic-GTE Order) and the Pennsylvania PUC imposed $2.5 billion in network investment requirements over three years ("Ill. And Pa. Approve BA-GTE Merger, With Each State Attaching 23 Conditions," *State Telephone Regulation Report*, Nov. 2, 1999, 7-8). The New York PSC required the merged Bell Atlantic/NYNEX to invest an additional $1 billion over five years in its network (NY Bell Atlantic-NYNEX Order).

In approving the US West/Qwest merger, the Arizona, Minnesota, Montana, Utah, and Wyoming Commissions imposed requirements to accelerate DSL deployment, improve service in rural areas, and increase network investment (Public Service Commission of Utah, In the Matter of the Merger of the Parent Corporations of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc., Report and Order, Docket No. 99-049-41, June 9, 2000; Minnesota Public Utilities Commission, In the Matter of the Merger of the Parent Corporations of Qwest Communications Corp et al and U S WEST Communications, Inc., Order Accepting Settlement Agreements and Approving Merger Subject to Conditions, Docket No. P-3009, 3052, 5096, 421, 3017/PA-99-1192, June 28, 2000; Arizona Corporation Commission, In the Matter of the Merger of the Parent Corporations of Qwest Communications Corporation LCI, International Telecom Corp., USLD Communications, Inc., Phoenix Network, Inc. and U S WEST Communications, Inc.. Opinion and Order, T-01051B-99-0497, June 12, 2000; "Wyo. PSC approved Qwest-U S

West Merger," *Communications Daily*, May 15, 2000, 6; "PSC Conditions Approval of Qwest-U S West Merger," *TR Daily*, May 9, 2000.).

The Pennsylvania PUC required Sprint to accelerate DSL deployment as a condition for approval of the spin-off their wireline properties (Joint Application of the United Telephone Company of Pennsylvania d/b/a Sprint, and of Sprint Long Distance, Inc., for all Approvals Required under the Pennsylvania Public Utility Code in Connection with Changes of Control of the United Telephone Company Of Pennsylvania d/b/a Sprint and of Sprint Long Distance, Inc., ("PA Sprint Order"), Docket Nos. 313200F0007 and 311379F0002, March 16, 2006).

Q. What service quality requirements have state Commissions required as conditions for merger approval?

A. Again, the list is exhaustive. I will provide an illustrative sample. In approving the SBC/Ameritech merger, the Illinois Commerce Commission and the Ohio PUC established stiff penalties for failure to meet wholesale and retail service benchmarks (Ohio SBC-Ameritech Order; "Ill. Conditionally Okays SBC-Ameritech Merger"). In approving the SBC/Pacific Telesis merger, the California PUC required the merged company to meet or exceed service requirements over five years after the merger (SBC/PT Decision). In the Alltel and Sprint wireline spin-offs, the Kentucky and Pennsylvania Commissions required the companies to maintain service levels (KY Alltel Order; PA Sprint Order.)

Q. Please summarize merger conditions related to employment, network investment, or service quality that state Commissions have required when SBC (now called AT&T) purchased other Regional Bell Operating Companies?

A. In each of the prior SBC acquisitions, state Commissions imposed guarantees of employment levels, network investment and broadband deployment, and service quality on the merged entity.

Q. Have these merger conditions had a positive impact on the quality of service provided to customers?

A. Yes. These conditions have provided state Commissions the authority to hold the merged company accountable to employ adequate human and capital resources to ensure consumers receive quality service. Absent specific conditions, the merged entity is free to cut employment, service levels, and capital investment. I have already discussed the AT&T lay-offs and call center closings just six months after that merger closed.

Q. Have the merged SBC entities remained profitable and financially strong entities, despite these merger-related conditions?

A. Absolutely. In 2005, the new AT&T earned $43.9 billion in revenues and $6.2 billion in operating income.

Conclusion

Q. Please summarize your testimony.

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

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

Q. Does this conclude your testimony?

A. Yes, it does.