Cheryl R. Winn
Attorney At Law

March 31, 2006

Ms. Beth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602

Case 2006-00136

RE: Joint Application for Approval of the Indirect Transfer of Control Relating to the Merger of AT&T Inc., and BellSouth Corporation

Dear Ms. O'Donnell:

Pursuant to KRS 278.020, enclosed is the Joint Application of AT&T Inc. and BellSouth Corporation ("Joint Applicants") for Approval of Indirect Transfer of Control Relating to the Merger of AT&T Inc. ("AT&T") and BellSouth Corporation ("BellSouth"), which qualifies as a holding company transaction.

The Joint Application and supporting Testimony demonstrate that the Merger is in the public interest and will not adversely affect the well established financial, technical and managerial abilities of the operating subsidiaries that currently provide service to Kentucky customers.

The Joint Applicants note the following highlights to the Application and Testimony:

Description of the Merger

- The Merger of AT&T and BellSouth is a Holding Company Transaction. AT&T, a holding company, will be acquiring all of the shares of BellSouth, also a holding company, and BellSouth will become a wholly-owned first tier subsidiary of AT&T.

- There will be no transfer of assets or certificates of any BellSouth operating subsidiary in Kentucky nor any change in control of any AT&T operating subsidiary in Kentucky as a result of the Merger. Therefore, no tariffs will need to be amended or adopted.

- The Merger will not affect the regulatory authority of the Kentucky Commission over the AT&T and BellSouth operating subsidiaries in Kentucky.

601 West Chestnut Street, Room 407
Louisville, KY 40203
Email: cheryl.winn@bellsouth.com

Phone:(502) 582-1475
Fax: (502) 582-1573

- Hence, the Merger will be transparent and seamless to AT&T's and BellSouth's customers in Kentucky.

Benefits of the Merger

- Cingular, a nationwide wireless provider now operated as a joint venture by AT&T and BellSouth, will come under unified ownership and managerial control; thus allowing Cingular to more quickly meet consumers' demand for competitive and converging wireline and wireless service.

- The merger will enhance the combined company's ability to deploy facilities-based competitive video services and therefore bring the benefits of increased video competition to consumers in Kentucky.

- The combined company will be a stronger, more efficient supplier of services to local, state, and federal government customers for a variety of purposes, including national security; it will also provide improved response to natural disasters and other public safety emergencies.

- The integration of AT&T's backbone with BellSouth's local network, and of the IP networks will result in the more rapid introduction of new, high quality IP-based products and services.

- The merger will mean increased research, development, and innovation; thus providing BellSouth customers with access to AT&T Laboratories and new products and services.

No Adverse Impact On Competition

- The Merger will not adversely impact competition in any market – including business and mass market.

- Those markets are robustly competitive, with many choices of service providers and services based upon a wide variety of technologies and combinations of technologies.

Procedural Matters

- The Merger must be approved by the FCC and Department of Justice.

- The Merger must be approved by the Kentucky Commission because of the indirect change in control (at the holding company level) of BellSouth operating subsidiaries in Kentucky.

- The Kentucky Commission, by statute, has 60 days to review this Merger (which can be extended an additional 60 days "for good cause shown").

The Joint Applicants respectfully request that the Commission approve the Joint Application within 60 days of filing as set out in KRS 278.020(6) and adopt the proposed procedural schedule attached hereto. This schedule provides for a complete review by the Kentucky Commission, and any interested party, of the issues related to the Merger and contemplated by this statute. In addition, this timeframe would align Kentucky with other state filings. To achieve increased efficiencies in this docket, the Joint Applicants also request that the Commission designate this matter as one to be handled as an electronic case.

Yours very truly,

H. N. McTyeire, V by CRW with permission

Holland N. ("Quint") McTyeire, V
Greenbaum, Doll & McDonald, PLLC
3500 National City Tower
Louisville, KY 40202
502-587-3672
hnm@gdm.com
COUNSEL FOR AT&T, INC.

Cheryl R Winn

Creighton E. Mershon, Sr.
Cheryl Winn
601 W. Chestnut Street, Room 407
Louisville, KY 40203
502-582-8219
502-582-1475
Creighton.mershon@bellsouth.com
Cheryl.winn@bellsouth.com
COUNSEL FOR BELLSOUTH CORPORATION, BELLSOUTH TELECOMMUNICATIONS, INC., and BELLSOUTH LONG DISTANCE, INC.

628442

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

PROPOSED PROCEDURAL SCHEDULE

File application with request for electronic filing (with associated pre-filed direct testimony/documents) and serve interested parties 3/31/06

All Petitions for Intervention and requests for information to the Joint Applicants shall be due no later than 4/10/06

The Joint Applicants shall file and deliver responses to the requests for information no later than 4/17/06

Intervenor Testimony, if any, shall be filed in verified prepared form no later than 4/24/06

Pre-filed Rebuttal Testimony, if any, shall be due no later than 5/1/06

Public Hearing, if requested, with expedited transcripts 5/10/06

Briefs, if any, shall be due no later than 5/19/06

627960

CERTIFICATE OF SERVICE

It is hereby certified that a true and correct copy of the foregoing was served on the individuals on the attached service list by mailing a copy thereof, this 31st day of March, 2006.

Cheryl R. Winn

Cheryl R. Winn

Joint Application for Approval of the Indirect Transfer of Control Relating to the Merger of AT&T Inc. and BellSouth Corporation

SERVICE LIST

Frankfort Electric & Water Plant Board
Ed Hancock
Box 308
Frankfort, KY 40602

Sprint Communications Company, L.P.
Bill Atkinson
14111 Capital Boulevard
Mailstop NCWKFR0313
Wake Forest, NC 27587-5900

John N. Hughes, Esq.
Attorney at Law
124 West Todd St.
Frankfort, KY 40602
Counsel for Frankfort Electric And Water Plant Board & Sprint

Douglas F. Brent, Esq.
Stoll, Keenon & Park, LLP
2650 Aegon Center
400 West Market Street
Louisville, KY 40202-3377
Counsel for Time Warner, Covad Verizon Communications, Inc. Telephone, Dialog Telephone, USLEC of TN, Big River Telephone Company, LLC, Cinergy Communications Company, CompSouth, and Access Integrated Networks

Verizon Communications, Inc.
Dulaney L. O'Roark, III
Six Concourse Parkway, Suite 600
Atlanta, GA 30328

Time Warner Telecom of Ohio, LP
Pamela Sherwood
P. O. Drawer 200
Winter Park, FL 32790-0200

US LEC of Tennessee Inc.
Terry Romine
Morrocroft III
6801 Morrison Blvd.
Charlotte, NC 28211

Dialog Telecommunications, Inc.
James Bellina
745 Tyvola Road, Suite 100
Charlotte, NC 28217

Network Telephone Corporation
Margaret Ring
Regulatory & Governmental Affairs
3300 North Pace Blvd.
Pensacola, FL 32505

Dieca Communications, Inc. d/b/a Covad Communications Company
Charles Watkins
1230 Peachtree Street, N.E.
19th Floor, Promenade II
Atlanta, GA 30309

C. Kent Hatfield, Esq.
Stoll, Keenon & Park, LLP
2650 Aegon Center
400 West Market Street
Louisville, KY 40202-3377
Counsel for AT&T Communications of the South Central States, LLC and TCG Ohio, Cinergy Communications Company, and CompSouth

AT&T Communications of the South Central States LLC and TCG Ohio
David Eppsteiner
1230 Peachtree Street
4th Floor, Room 4W26
Atlanta, GA 30309

Cinergy Communications Company
Robert A. Bye, Vice Pres. & Gen. Counsel
8829 Bond Street
Overland Park, KS 66214

John Chuang, Corporate Counsel
8829 Bond Street
Overland Park, KS 66214

Verizon Select Services Inc.
Anthony P. Gillman
General Counsel
FLTC0007, 201 N. Franklin Street
P.O. Box 110
Tampa, FL 33601-0110

TelCove, Inc.
Keith Pado
121 Champion Way
Canonsburg, PA 15317

FDN Communications
Matthew Feil
General Counsel
2301 Lucien Way, Suite 200
Maitland, FL 32751

Lightyear Network Solutions, LLC
Linda Hunt
Manager of Regulatory Affairs
1902 Eastpoint Parkway
Louisville, KY 40223

NewSouth Communications Corp/NuVox Communications, Inc.
Mary Campbell
2 North Main Street
Greenville, SC 29601

John Fury
Ed Cadieux
16090 Swingley Ridge Road, Suite 500
Chesterfield, MO 63017

Ed Cadieux
16090 Swingley Ridge Road, Suite 500
Chesterfield, MO 63017

Susan J. Berlin
2 North Main Street
Greenville, SC 29601

Xspedius Communications, LLC on behalf of itself and its operating subsidiaries, Xspedius Management Co. Switched Services, LLC, Xspedius Management Co. of Lexington, LLC, and Xspedius Management Co. of Louisville, LLC
James Falvey
14405 Laurel Place, Suite 200
Laurel, MD 20707-6102

KMC Telecom V, Inc. and KMC Telecom III LLC
Marva Brown-Johnson
1755 North Brown Road
Lawrenceville, GA 30043

Chad Pifer
1755 North Brown Road
Lawrenceville, GA 30043

John J. Heitmann
Garret R. Hargrave
Scott A. Kassman
Kelley Drye & Warren
1200 19th Street, N.W., Suite 500
Washington, DC 20036

John E. Selent
Holly C. Wallace
Dinsmore & Shohl, LLP
1400 PNC Plaza
500 W. Jefferson Street
Louisville, KY 40202
Counsel for Nuvox/NewSouth, Xspedius and KMC

Inter Mountain Cable d/b/a MTS Communications ("MTS")
James Campbell
P. O .Box 159
5 Laynesville Road
Harold, KY 41635

John C. Schmoldt
P. O .Box 159
5 Laynesville Road
Harold, KY 41635

U-Dial of Kentucky, Inc.
Ellis Falkoff
800 E. Reelfoot Avenue, Suite 200
Union City, TN 38261

Henry C. Campen, Jr., Esq.
Parker Poe
Counsel for DukeNet
Wachovia Capitol Center
150 Fayetteville Street Mall Suite 1400
P.O. Box 389
Raleigh, NC 27602-0389
Counsel for DukeNet

SouthEast Telephone, Inc.
Liz Thacker
SouthEast Telephone, Inc.
106 Power Drive
Pikeville, KY 41502-1001

Jonathon N. Amlung
1000 Republic Building
429 W. Muhammad Ali Blvd.
Louisville, KY 40202-2347
Counsel for SouthEast Telephone

e-Tel
Renee Hayden
601 Broadway, Suite B
Paducah, KY 42001

Attorney General
Dennis Howard
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Aero Communications, LLC
Kristopher E. Twomey
LOKT Consulting
1519 E. 14th Street, Suite A
San Leandro, CA 94577

Todd Heinrich
1301 Broadway, Suite 100
Paducah, KY 42001

Ganoco, Inc. dba American Dial Tone
Larry Wright
2323 Curlew Road, Suite 7C
Dunedin, FL 34698

AmeriMex Communications Corp.
Glenn S. Richards
Shaw Pittman LLP
2300 N Street, NW
Washington, DC 20037
Counsel for AmeriMex Communications Corp.

PowerNet Global Communications
Eric J. Branfman
Robin F. Cohn
Swidler Berlin LLP
The Washington Harbor
3000 K Street, N.W., Suite 300
Washington, DC 20007-5116
Counsel for PNG

Navigator Telecommunications, LLC
Michael McAlister
8525 Riverwood Park Drive
P. O. Box 13860
North Little Rock, AR 72113-0860

CompSouth
Bill Magness
Casey, Gentz, & Magness, LLP
98 San Jacinto Blvd., Ste. 1400
Austin, TX 78701

Deborah Eversole
Stoll, Keenon & Park, LLP
2650 Aegon Center
400 West Market Street
Louisville, KY 40202-3377
Counsel for CompSouth

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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

JOINT APPLICATION FOR APPROVAL OF INDIRECT TRANSFER OF CONTROL

1. To the extent required by KRS 278.020, AT&T Inc. ("AT&T"),[1] BellSouth Corporation ("BellSouth"), and BellSouth Telecommunications, Inc. hereby request approval of the indirect change in control of telecommunications facilities resulting from the Agreement and Plan of Merger ("Merger Agreement") jointly executed by AT&T and BellSouth on March 4, 2006.[2] A copy of the Merger Agreement is attached hereto as Exhibit B.

2. The merger of AT&T and BellSouth is a holding company transaction. Only the corporate parents of entities that provide service in Kentucky are affected and, accordingly, the merger will be transparent and seamless to consumers in the State. In particular, after the merger, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc. – the wholly owned subsidiaries of BellSouth that operate in Kentucky – *will continue to provide service in the State just as they did before the transaction*. No transfer of assets or certificates held by those operating companies will be required by the merger. No tariffs will need to be amended or

[1] As the Commission is aware, AT&T Inc. is the result of a recent merger between SBC Communications Inc. and AT&T Corp.

[2] Please see the Cautionary Language Regarding Forward-Looking Statements attached as Exhibit A to this Joint Application.

adopted.[3] No change in control of any kind will occur as to the AT&T subsidiaries that are certificated in Kentucky. In short, the merger will not adversely affect the well-established financial, technical, and managerial abilities of the operating subsidiaries that currently provide high-quality service to Kentucky customers.

3. Nothing in this transaction will affect the Commission's regulatory authority over the BellSouth operating subsidiaries (and the AT&T subsidiaries) in Kentucky. Moreover, the BellSouth operating subsidiaries will remain subject to the same wholesale obligations they have under interconnection agreements and Commission orders.

4. This transaction will further the public interest and benefit consumers in Kentucky in multiple ways. *First*, the unification of ownership and managerial control of Cingular Wireless ("Cingular"), a nationwide wireless provider now operated as a joint venture by AT&T and BellSouth, will allow Cingular to meet more quickly consumers' demand for converged wireless and wireline services. *Second*, the merger will enhance the combined company's ability to deploy facilities-based competitive video services and therefore bring the benefits of increased video competition to consumers in Kentucky. *Third*, the combination of these companies will enhance services to government customers, strengthen national security, and improve response to natural disasters and other public safety emergencies in Kentucky. *Fourth*, consumers will benefit greatly from the integration of BellSouth Telecommunications, Inc.'s local network with the AT&T backbone. *Fifth*, the merger will serve the public interest by enhancing research and development opportunities, and bringing to customers the innovations of AT&T Laboratories. *Finally*, the merger will result in substantial savings in costs of operations that will benefit customers by supporting the combined company's increased research,

[3] If any name change occurs, that will be the subject of separate processes, as necessary to effectuate that change.

development, and innovation, thereby making the combined company a more effective competitor.

5. The merger of AT&T and BellSouth will not harm competition in Kentucky. In 2004, legacy AT&T (AT&T Corp. before its merger with SBC Communications Inc. ("SBC") in November 2005) irreversibly ceased actively marketing wireline local and long-distance services to mass-market customers, and thus it is not a factor in that market today. Moreover, mass-market competition in BellSouth Telecommunications, Inc.'s territories is robust. Indeed, BellSouth Telecommunications, Inc. has at least six wireline competitors providing competitive services in every switching office where BellSouth Telecommunications, Inc. provides service in Kentucky. In addition, there are 3 to 4 wireless providers serving each area. Similarly, the BellSouth entities and AT&T generally compete for different classes of business customers, and, in any event, those sophisticated consumers have many choices for service. For these same reasons, the Federal Communications Commission ("FCC") recently concluded that the analogous merger of SBC and AT&T Corp. did not threaten competition in those markets. *See* Memorandum Opinion and Order, *SBC Communications Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, 20 FCC Rcd 18290 (2005) ("*SBC/AT&T Merger Order*"). The FCC's analysis is fully applicable to the competitive issues in this context, and indeed applies even more strongly today.

6. The merger also will not harm employment in Kentucky. AT&T and the BellSouth entities expect that merger synergies will result in a reduction of about 10,000 jobs (out of approximately 317,000 employees) across the combined company nationwide between 2007 and 2009. Based upon their average annual loss of employees through retirement and voluntary departures from the business, the companies believe that this reduction in force can be

accommodated through normal attrition. As a reference point, AT&T and the BellSouth entities combined (and not including Cingular) lose about 20,000 employees annually through normal attrition. More importantly, as in past mergers involving the new AT&T (SBC prior to November 2005), the parties expect that this transaction will in fact lead to new and exciting opportunities for employees of the combined company. Furthermore, the workforce-related benefits of this transaction extend beyond the combined organization's employment needs. A strong combined BellSouth and AT&T will be better positioned to deliver the advanced networks and services required by Kentucky businesses to succeed, which in turn should create more jobs in the economy at large.

7. The merger will in no way diminish the parties' commitment to providing the resources necessary to support the Commission's vital role in regulating intrastate services in Kentucky. The BellSouth entities have long recognized the critical role played by state commissions, and they have long made it a priority to ensure that they have personnel available in each in-region State to respond to inquiries and otherwise assist state commissions in performing their regulatory functions. AT&T is equally committed to that objective. Indeed, as it has done in prior mergers involving a holding company with incumbent local exchange carrier ("ILEC") operating subsidiaries, AT&T intends to retain a significant local presence and ILEC operations in each of the BellSouth States, including Kentucky. This commitment is embodied in a letter from Edward E. Whitacre Jr., Chairman and Chief Executive Officer of AT&T Inc., to F. Duane Ackerman, Chairman of the Board and Chief Executive Officer of BellSouth Corp., dated March 4, 2006. In that letter, Mr. Whitacre speaks to "the value we attach to a high quality workforce, and the experience and skills of the management and employees of BellSouth," and AT&T's intent "to broadly utilize the services of the management and employees of BellSouth

following the closing of the Merger."[4] Moreover, Mr. Whitacre indicates that, "following the consummation of this merger, AT&T Inc. will … (i) maintain Atlanta as AT&T Inc.'s regional telco headquarters and maintain state headquarters in each of BellSouth's traditional nine-state area."[5]

8. The Joint Applicants submit that the public interest will be served and consumers will reap the benefits of this merger sooner if the proposed change in control, explained more fully below, is permitted to be consummated quickly. Therefore, the Joint Applicants respectfully request that the Commission consider and resolve this Application within 60 days as set forth in KRS 278.020(6) as applicable. Exhibit O to this filing contains a proposed procedural schedule for resolution of this matter within 60 days.

9. The Joint Applicants offer the following information in support of this Application:

I. THE PARTIES

A. AT&T Inc.

10. Pursuant to 807 KAR 5:001, Section 8(1), AT&T is a Delaware corporation with its headquarters at 175 East Houston Street, San Antonio, Texas 78205-2233. AT&T is a holding company and does not directly provide any services in Kentucky. The AT&T family of companies is a leader in the provision of global communications services. Its subsidiaries provide domestic and international voice and data communications services to residential, business, and government customers both here in the United States and around the world. AT&T operates sophisticated communications networks that support Internet Protocol ("IP") as

---

[4] Letter from Edward E. Whitacre Jr., Chairman and Chief Executive Officer, AT&T Inc., to F. Duane Ackerman, Chairman of the Board and Chief Executive Officer, BellSouth Corp. (Mar. 4, 2006) ("Whitacre Letter") (attached as Exh. C).

[5] *Id.*

well as other data and voice traffic. AT&T holds a 60% ownership in Cingular Wireless, a nationwide wireless provider. AT&T's network operations are supported by AT&T Laboratories, a world-leading source of research and development. Pursuant to 807 KAR 5:001, Section 8(3), a certified copy of the Articles of Incorporation of AT&T Inc. is attached as Exhibit D. A list of AT&T's board members and a summary of the qualifications of its top management personnel is attached as Exhibit E.

11. More comprehensive information concerning AT&T's financial status, operations, management, and services is set forth in AT&T's most recent 10-K filing with the Securities and Exchange Commission ("SEC"). *See* AT&T Inc., Form 10-K (SEC filed Mar. 1, 2006) (attached as Exh. F).

B. AT&T Subsidiaries Certificated in Kentucky

12. AT&T Communications of the South Central States, LLC, a Delaware corporation and a wholly owned subsidiary of AT&T, is certificated by this Commission to operate as a competitive local exchange carrier ("CLEC"), a long-distance carrier, an operator service provider, and as a payphone service provider (customer-owned, coin-operated telephone or "COCOT" service).

13. TCG Ohio, a New York general partnership, is a wholly owned subsidiary of AT&T. TCG Ohio is certificated by this Commission to operate as a CLEC in Kentucky.

14. SBC Long Distance, LLC, a Delaware limited liability company with its headquarters in Pleasonton, California, is an indirect, wholly owned subsidiary of AT&T. SBC Long Distance, LLC is certificated by this Commission to operate as a CLEC and a long-distance reseller in Kentucky. SBC Long Distance, LLC has registered the d/b/a "AT&T Long Distance" name in Kentucky.

15. SNET America, Inc. d/b/a SBC Long Distance East ("SBC Long Distance East") is a Connecticut corporation with its headquarters in New Haven, Connecticut. SBC Long Distance East is certificated by this Commission to operate as a long-distance reseller in Kentucky. SNET America, Inc. has registered the d/b/a "AT&T Long Distance East" name in Kentucky.

C. BellSouth Corp.

16. Pursuant to 807 KAR 5:001, Section 8(1), BellSouth is a Georgia corporation with its headquarters at 1155 Peachtree Street, N.E., Atlanta, Georgia 30309-3610. BellSouth is a holding company and does not directly provide any telecommunications services in Kentucky. Through its subsidiaries, BellSouth is a leading communications services provider in the Southeast, offering voice and data services to residential, business, and government customers. BellSouth holds a 40% ownership in Cingular Wireless. Pursuant to 807 KAR 5:001, Section 8(3), a certified copy of the Articles of Incorporation of BellSouth Corp. is attached as Exhibit G.

17. More comprehensive information concerning BellSouth's financial status, operations, management, and services is set forth in BellSouth's most recent 10-K filing with the SEC. *See* BellSouth Corp., Form 10-K (SEC filed Feb. 28, 2006) (attached as Exh. H).

D. BellSouth Subsidiaries Certificated in Kentucky

18. BellSouth Telecommunications, Inc., a Georgia corporation, is a wholly owned subsidiary of BellSouth and is certificated by this Commission to act as an ILEC in Kentucky. BellSouth Telecommunications, Inc. is not subject to rate-of-return regulation. A certified copy of the Articles of Incorporation of BellSouth Telecommunications, Inc. is attached as Exhibit I.

19. BellSouth Long Distance, Inc. is a Georgia corporation with its headquarters in Atlanta, Georgia. BellSouth Long Distance, Inc. is a wholly owned subsidiary of BellSouth and

is certificated by this Commission to operate as a CLEC, a long-distance reseller, and an operator service provider. A certified copy of the Articles of Incorporation of BellSouth Long Distance, Inc. is attached as Exhibit J.

E. Designated Contacts

20. The designated contacts for information regarding this Joint Application are:

BellSouth Contacts

Creighton E. Mershon, Sr.
Cheryl R. Winn
601 W. Chestnut Street
Room 407
Louisville, Kentucky 40203
(502) 582-8219 (Telephone)
(502) 582-1573 (Facsimile)
Cheryl.Winn@bellsouth.com

James G. Harralson
Lisa S. Foshee
675 West Peachtree
Suite 4300
Atlanta, Georgia 30375
(404) 335-0750 (Telephone)
Lisa.Foshee@bellsouth.com

AT&T Contacts

Holland N. ("Quint") McTyeire, V
Greenebaum Doll & McDonald PLLC
3500 National City Tower
Louisville, Kentucky 40202
(502) 587-3672 (Telephone)
(502) 540-2223 (Facsimile)
hnm@gdm.com

Wayne Watts
Martin E. Grambow
D. Randall Johnson
David Eppsteiner
AT&T Inc.
175 East Houston
San Antonio, Texas 78205-2233
(214) 464-3620 (Telephone)
eppsteiner@att.com

Sean A. Lev
Kellogg, Huber, Hansen, Todd,
Evans & Figel, PLLC
1615 M Street, N.W., Suite 400
Washington, D.C. 20036
(202) 326-7975 (Telephone)
slev@khhte.com

II. **THE MERGER**

21. On March 4, 2006, AT&T and BellSouth entered into the Merger Agreement. *See* Exh. B.

22. The merger of AT&T and BellSouth is a holding company transaction. By the terms of the Merger Agreement, AT&T will purchase all of the issued and outstanding shares of BellSouth. AT&T has created a wholly owned subsidiary, ABC Consolidation Corp. ("ABC"), a Georgia corporation, specifically for the purpose of consummating the transaction. ABC will merge with and into BellSouth, with BellSouth being the surviving entity. At the time of the merger, shareholders of BellSouth will exchange their BellSouth stock for AT&T stock. Following the merger, BellSouth will become a wholly owned, first-tier subsidiary of AT&T.

23. Importantly, from the perspective of this Commission, there will be no change in the ownership structure of any AT&T-affiliated entity subject to the Commission's regulatory authority. Likewise, there will be no change in the direct ownership of any BellSouth subsidiary certificated in Kentucky. The only difference will be that AT&T will own BellSouth, and thus indirectly control BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc., which are operating subsidiaries of BellSouth.

24. The transaction will not result in any transfer of certificates or facilities in Kentucky, nor will any Kentucky tariffs need to be amended or adopted. After the merger is completed, the Commission will have the same authority to regulate all the Kentucky certificated entities in accordance with applicable law as it did before the transaction.

III. THE COMMISSION SHOULD APPROVE THIS INDIRECT TRANSFER OF CONTROL OF TELECOMMUNICATIONS FACILITIES

A. Relevant Statutory Provisions

25. Under Kentucky law, Commission approval is required before any corporation "shall acquire or transfer ownership of, or control, or the right to control, any utility … by sale of assets, transfer of stock, or otherwise." KRS 278.020(5), (6). Subsection 5 of KRS 278.020 states in pertinent part that this Commission shall grant approval if the person acquiring the utility "has the financial, technical, and managerial abilities to provide reasonable service." Subsection 6 of KRS 278.020 states in pertinent part that the Commission "shall approve any 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."[6]

26. For the purpose of subsection 6 of KRS 278.020, "control" is defined as "the possession, *directly or indirectly*, of the power to direct or cause the direction of the management and policies of a utility," and the Commission presumes "control" when a corporation, "directly or indirectly, owns ten percent (10%) or more of the voting securities of the utility." *Id.* (emphasis added).

27. The Commission has exempted acquisitions of "[interexchange carriers ("IXCs")], long-distance resellers, and operator service providers," as well as "CLECs" and "wireless carriers," from the approval requirement. *See* Order at 6-7, *Exemptions for Interexchange Carriers, Long-Distance Resellers, Operator Service Providers and Customer-*

[6] Additionally, a utility that "derives a greater percentage of its gross revenue from business in another jurisdiction than from business in [Kentucky]" is exempted from the requirements of KRS 278.020(6) if the Commission "determines that the other jurisdiction has statutes or rules which are applicable and are being applied and which afford protection to ratepayers in [Kentucky] substantially equal to that afforded such ratepayers by [KRS 278.020(6)]." KRS 278.020(7)(a).

Owned, Coin-Operated Telephones, Administrative Case No. 359, 1996 Ky. PUC LEXIS 77 (June 21, 1996) ("First Exemption Order"); Order at 4, *Exemptions for Providers of Local Exchange Service Other than Incumbent Local Exchange Carriers*, Administrative Case No. 370, 1998 Ky. PUC LEXIS 319 (Jan. 8, 1998) ("Second Exemption Order"). These utilities need only provide the Commission with a letter describing the transfer and an adoption notice pursuant to 807 KAR 5:011, Section 11. *See* Second Exemption Order at 2, 1998 Ky. PUC LEXIS 319. This exemption does not apply, however, to an ILEC. *See* First Exemption Order at 8, 1996 Ky. PUC LEXIS 77 (stating that "[t]he Commission does not contemplate extending any of the exemptions provided herein to services provided by incumbent local exchange carriers"); Second Exemption Order at 4, 1998 Ky. PUC LEXIS 319 ("The exemptions granted herein are applicable to all non-incumbent local exchange carriers").

28. In light of these provisions, this Commission's approval should be required only as to the indirect transfer of control of facilities and operations of BellSouth Telecommunications, Inc.[7] For all the reasons discussed below, the indirect transfer of control over the facilities and operations of BellSouth Telecommunications, Inc. created by this merger is in the interest of consumers and the public.

29. As demonstrated in the remainder of this Application and the exhibits thereto, including the pre-filed testimony of Eddy Roberts (attached as Exh. K), James S. Kahan (attached as Exh. L), Christopher Rice (attached as Exh. M), and Dr. Debra Aron (attached as

---

[7] The Merger Agreement will not involve any change in control, either direct or indirect, of the AT&T subsidiaries and their facilities in Kentucky. Before and after the merger, they will be controlled by AT&T. Moreover, BellSouth Long Distance, Inc. operates as a CLEC, a long-distance reseller, and an operator service provider, and thus the transfer of its facilities is not subject to KRS 278.020 as provided by the First and Second Exemption Orders. In any event, the public interest supports the indirect transfer of control over BellSouth Long Distance, Inc. as part of this merger as well. To the extent necessary, this Joint Application should be construed as the letter and adoption notice as to BellSouth Long Distance, Inc.

Exh. N), which are being filed with this Application, the relevant statutory standards are readily satisfied here. In particular, the merger of AT&T and BellSouth will clearly and demonstrably benefit the public interest. It responds to major technological and marketplace changes and promotes facilities-based competition in all communications services markets by bringing together two companies with complementary strengths, product sets, and customer bases without having any adverse effect on competition. Together, AT&T and BellSouth will be positioned for success in a rapidly changing industry, making the transition from legacy technologies to advanced, next-generation IP networks and services. The combined company will be stronger, more effective, more responsive, and more innovative; it will, therefore, be better able to meet the needs and demands of its customers.

B. The Indirect Transfer of Control Will Have No Adverse Effect on Service to Consumers in Kentucky

30. The indirect transfer of control created by the Merger Agreement will be transparent to Kentucky consumers. Following the merger, the BellSouth subsidiaries certificated in Kentucky will operate just as they do today. Those certificated entities (and, for that matter, the current AT&T subsidiaries certificated in Kentucky) will continue to exist in their current form after the merger is completed. The merger will have no effect on the rates, terms, and conditions of service that those entities currently provide. These operating subsidiaries will provide the same high-quality service that they currently offer to consumers in Kentucky. There will be no transfer of assets or certificates, and no changes to the tariffs under which they provide service.

31. The merger will not impair, compromise, or in any way alter the Commission's authority to regulate BellSouth Telecommunications, Inc. (or, for that matter, the other AT&T and BellSouth subsidiaries currently operating in Kentucky). Upon completion of the merger,

the Commission will retain the same authority over the rates, services, and responsibilities of these entities, in accordance with the applicable law, that it does today.

32. As noted at the outset, the merger will in no way diminish the parties' commitment to providing the resources necessary to support the Commission's vital role in regulating intrastate services in Kentucky. Indeed, Mr. Whitacre has advised Mr. Ackerman that AT&T will "maintain state headquarters in each of BellSouth's traditional nine-state area." Whitacre Letter (attached as Exh. C).

33. Nor will the wholesale obligations of BellSouth's operating subsidiaries under interconnection agreements and orders of this Commission be affected by the merger. BellSouth's subsidiaries operating in Kentucky will still be bound to those agreements and orders post-merger closing to the same degree as before the merger, and all performance standards and other regulatory requirements that currently apply to BellSouth operating subsidiaries in Kentucky will be unaffected by the merger.

34. BellSouth Telecommunications, Inc. and the other BellSouth and AT&T operating entities in Kentucky are currently fit and able to perform the public utility services authorized by their certificates and to comply with the lawful rules, regulations, and requirements of the Commission, and they will remain so after the merger. Because the transfer of control occurs only at the holding company level, it will have no effect on the ability of the operating subsidiaries in Kentucky to continue to provide the same high quality of service to Kentucky customers. The merger will have no negative effect on the financial, technical, and managerial abilities of AT&T, BellSouth, or the BellSouth and AT&T subsidiaries operating in Kentucky. Moreover, over time, the BellSouth subsidiaries will greatly benefit from access to

the substantial resources and human capital of AT&T, which, like BellSouth, has a long history of financial, technical, and managerial capacity to provide high-quality local exchange service.

C. The Indirect Transfer of Control Will Provide Significant Benefits to Consumers and the Public Interest

35. Ultimately, the merger between AT&T and BellSouth will substantially enhance the quality and variety of communications services offered to the citizens of Kentucky. The public interest benefits of the merger include the following:

36. ***Unification of Cingular's Ownership Will Make Possible New Converged Services and Enhance Efficiency.*** The Cingular joint venture between AT&T and BellSouth has been a great success by any measure. The merger of Cingular's parents will enable the company to reach the next level in terms of competitiveness – a level that is simply not achievable today because the joint venture partners share equally in control over Cingular. With unified ownership and managerial control, Cingular will be better able to meet more quickly consumers' demand for converged wireless and wireline services. For example, AT&T, BellSouth, and Cingular each are in various stages of deploying IP Multimedia Subsystems ("IMS") to deliver new IP-based services. This technology enables interoperability of devices, so that voice, data, and video services can be provided in any combination over any wired or wireless network. This merger will enable the deployment of a single IMS network offering converged applications across the television, personal computer, and mobile screens to consumers, and new managed services to business customers utilizing a single device. In addition, as a direct result of unified ownership and managerial control, Cingular will be able to integrate customer care and support functions resulting in a single, consolidated ordering and provisioning system. This will provide customers with a single point of contact for sales, trouble reporting, and integrated billing with respect to all of their communications needs.

37. ***Increased Video Competition.*** The merger also will allow more rapid deployment of facilities-based competitive video services in Kentucky. AT&T has been engaged in a massive effort to expand its consumers' video choices through Project Lightspeed. Project Lightspeed is a more than $4 billion network upgrade program to transform AT&T's existing 13-state local network to an upgraded fiber network. Project Lightspeed will enable AT&T to offer its customers an advanced suite of voice, video, and data services, including an IP-based video service or "IPTV." AT&T is currently engaged in a controlled launch of its IPTV service in San Antonio, Texas, and plans to roll out the service to other markets where it currently has local exchange networks. By the first half of 2008, AT&T projects that its IPTV service will be available to approximately 18 million subscribers.[8]

38. The combined company will be better able to bring similar benefits to Kentucky customers faster than would likely occur absent the merger. BellSouth itself is in the midst of a major deployment of fiber to support higher speed data services, but has not yet made a decision to commit to deploying video services. BellSouth's expanded infrastructure can nevertheless be used to allow AT&T to roll out IPTV more quickly in BellSouth's region.

39. Moreover, the combined company will experience significant cost savings in rolling out video. For instance, the companies will not need to develop two sets of ordering, billing, customer care, trouble shooting, and other systems to support video. Similarly, in some instances, they will not need to deploy duplicative multi-million dollar pieces of equipment.

40. The combined company is also likely to be a more attractive partner for video content providers. Importantly, with its larger geographic reach, and large customer base, the combined company should therefore be able to obtain programming on more favorable terms

---

[8] AT&T's success in achieving these goals will be largely dependent upon local franchising authorities not creating barriers to such deployment.

than either company could individually. This is a key benefit of the merger because the cost of programming is a substantial portion of the expense of entering the video market.

41. Additionally, a new video provider with a large subscriber base will increase the demand for programming, which should increase programming diversity, especially for new, smaller, and/or regional programmers, including foreign language, ethnic, and other niche programming. The combined company, moreover, will be able to take risks on new technologies and invest in research and development relating to IP-enabled services because of the ability to spread costs over a larger subscriber base and realize potentially greater benefits from such expenditures.

42. ***Better Service to Government Customers, Strengthened National Security, and Enhanced Disaster Recovery.*** The merger will create a stronger, more efficient U.S.-owned and -controlled supplier of critical communications capabilities to the government.

43. The integration of BellSouth's local network with AT&T's backbone will improve the combined company's ability to respond expeditiously and effectively to evolving needs of government customers and will enhance communications security and reliability. For instance, the merged entity will have a unified end-to-end IP-based network that will have greater reliability, robustness, and resiliency than three separately operated and maintained networks. Similarly, the merged entities' combined networks will give government customers more efficient routing, with fewer network exchange points, reduced "latency" (that is, delay), and a lower rate of packet loss.

44. In reviewing and approving the merger between SBC Communications Inc. and AT&T Corp. last year, the FCC confirmed that these and other merger efficiencies enhanced national security and were therefore important public interest benefits. Because the same kinds

of efficiencies that will be created by this merger provide "additional security and routing efficiency for vital and sensitive government communications," they must be taken "extremely seriously." *SBC/AT&T Merger Order* ¶ 186; *see id.* ¶ 188 (finding "significant efficiencies" that would "improve the quality of services" to governmental customers).

45. Moreover, in the wake of last year's devastating hurricane season, and in light of the threat of paralyzing tornadoes and ice storms in Kentucky, protecting communications networks from natural disasters, and responding promptly to restore damaged networks, has become a national imperative. In cases of large-scale disasters, even individual companies the size of BellSouth and AT&T are heavily strained to provide all of the equipment and personnel necessary to restore service. The Regional Bell Operating Companies ("RBOCs") have historically entered into voluntary mutual aid agreements, pursuant to which they have provided equipment and loaned technical personnel to another RBOC when faced with such massive disruptions of service. While these mutual aid agreements have worked tolerably well, they are not a substitute for the abilities of a single, integrated company managing a single, integrated network throughout the affected region, with a common inventory of substitute equipment and personnel trained on that equipment.

46. Unified managerial control over the local exchange operations in both the BellSouth States (including Kentucky) and the States where AT&T has local exchange operations (*e.g.*, Texas and Oklahoma) will facilitate the deployment of equipment and personnel required to restore service following a disaster. Crucial time will be saved in deploying the right personnel and equipment where they are needed most.

47. Moreover, AT&T has unique disaster recovery capabilities and assets that the merger will allow to be used for the benefit of BellSouth and its customers in Kentucky. Before

its recent merger with SBC, AT&T Corp.'s primary focus was on service to large government and enterprise customers, both of which demand service of extraordinary reliability. In response to that demand, AT&T Corp. had invested hundreds of millions of dollars to develop disaster recovery capabilities that can now be used to benefit all classes of wireless and wireline customers in Kentucky.

48. Finally, because the merger will place Cingular under unified ownership and managerial control, Cingular's facilities and capabilities will be more readily available for deployment to supplement AT&T's landline network, and facilities in the landline network can be used by Cingular to restore wireless services in many areas. The combination of Cingular's network, AT&T's long-distance network, and BellSouth's facilities will significantly enhance the opportunity to reroute traffic over the other companies' backbone facilities, switches, and nodes, thereby restoring services quickly after a disaster strikes.

49. ***Vertical Integration Will Result in Better and More Efficient Services.*** The vertical integration of the complementary AT&T backbone network and BellSouth local networks will, as the FCC recognized in approving the analogous SBC/AT&T merger, provide significant public interest benefits to *all* categories of customers. In the FCC's words, the integration of these "complementary networks" is in the public interest because "customers will benefit not only from new services, but also from the improvements in performance and reliability resulting from the network integration." *SBC/AT&T Merger Order* ¶ 188.

50. Indeed, although the integration efforts from the SBC/AT&T merger only began in January 2006, consumers are already seeing benefits of this vertical integration in terms of both new products and more reliable and efficient services. These benefits are occurring even

earlier than AT&T had hoped. These benefits include new products and capabilities and more reliable and efficient networks.

51. Just as in the SBC/AT&T merger, the integration of the complementary BellSouth local networks and the AT&T backbone network will result in increased efficiency and reduced costs. As noted above, network integration avoids the need for inter-networking traffic to follow convoluted, inefficient routes. Fewer handoffs between networks means reduced delay and increased reliability. The result will be better service and reliability for consumers in Kentucky.

52. The integration of these three IP networks also will result in a broader and more rapid deployment of IP-based services. BellSouth is presently deploying additional fiber-optic facilities deeper into its network to enable delivery of IP-based services, including ultra-high-speed data services. However, BellSouth lacks the extensive backbone network necessary to connect subscribers efficiently to national and global networks. AT&T has such facilities, but lacks broad local access in BellSouth's region. Combining these existing assets of AT&T and BellSouth (as well as integrated deployment of new assets) will create a seamless, high-quality, and cost-effective end-to-end IP network for next-generation applications – and will do so more broadly and more rapidly than would occur absent this transaction. This integrated end-to-end IP network will allow the combined company to bring innovative services to consumers more quickly. It will also allow AT&T to offer the managed services and other products it currently offers to its large business "enterprise" customers to BellSouth's small- and medium-sized business customers.

53. ***Increased Research, Development, and Innovation.*** A significant benefit of the merger is the increased research and development that will be made possible by the greater scale of the combined company. The combined company will be able to draw upon a larger pool of

human capital and intellectual property to perform research and development ("R&D") than would the BellSouth entities by themselves. Moreover, as the FCC concluded in approving the AT&T/SBC merger, "by broadening its customer base, the merged entity will have an increased incentive to engage in basic research and development." *SBC/AT&T Merger Order* ¶ 195. "[W]hen a transaction enables the parties to combine their R&D efforts and to spread the cost of those R&D efforts over a more extensive customer base, this could result in new products and services that would not have been introduced absent the proposed transaction." *Id*. ¶ 193 (internal quotation marks omitted). Among other things, products developed by AT&T Laboratories, including IP-based innovations, to serve AT&T's very large business customers may be applied to consumer and business services offered by the BellSouth entities.

54. Significantly in this regard, after the merger, the BellSouth entities will have access to AT&T Laboratories, which has long been at the leading edge of technological innovation. Many significant innovations developed by AT&T Laboratories for AT&T's enterprise customer base could be applied to residential and business services offered by BellSouth subsidiaries. AT&T Laboratories' unrivaled expertise in such areas as IP innovation, text-to-speech engines, and advanced telecommunications network management software could thus be put to the service of BellSouth customers.

55. This increased ability to engage in research and development should benefit rural customers in particular. BellSouth has made a significant investment in providing broadband access widely in its service areas in Kentucky, and 81% of households passed in the BellSouth service area have access to DSL service. As the FCC has recognized, however, deployment of

wireline DSL in some rural areas poses difficult challenges.[9] As a result of the merger, AT&T and BellSouth can consolidate their efforts to explore ways to deploy broadband services more efficiently to rural and other hard-to-reach areas. At this point in time, both the AT&T and BellSouth entities have extended DSL service into their respective in-region areas almost to the limits that such service can go (although BellSouth is continuing to enable remote terminals to support DSL throughout Kentucky) and still be technically and economically viable. Other technologies may well be needed to provide broadband service to the remaining rural customers. For that reason, the pooling of AT&T and BellSouth resources and information is significant because it holds great promise for the development and deployment of broadband services using fixed wireless technologies.

56. ***The Merger Will Result in Cost Savings.*** The merger will result in substantial savings in costs of operations that will benefit customers by supporting the combined company's increased research, development, and innovation, thereby making the combined company a more effective competitor. These anticipated cost savings are based on AT&T's prior merger experience. They are expected to result from volume discounts provided by hardware and software suppliers as the combined company's scale and scope of procurement expands, from the

---

[9] In its Fourth Report to Congress on the availability of advanced services, the FCC recognized that providing wired broadband service to certain rural areas poses some hurdles but noted that significant progress is being made:

> Rural areas are typically characterized by sparse and dispersed populations, great distances between the customer and the service provider, and difficult terrain. These factors present a unique set of difficulties for providers attempting to deploy broadband services. Yet despite these obstacles, the data described in the preceding section demonstrate that significant progress is being made towards ubiquitous availability of advanced services in rural areas. This is a marked improvement since the *Third Report*.

Fourth Report to Congress, *Availability of Advanced Telecommunications Capability in the Untied States*, 19 FCC Rcd 20540, 20577 (2004).

elimination of duplicative staff and related administrative expenses, and from efficiencies and reductions in expense associated with consolidation of AT&T's, BellSouth's, and Cingular's IP networks.

D. The Indirect Transfer of Control Will Have No Adverse Impact on Competition in Kentucky

57. Far from harming competition, this merger will yield a combined company that will be a vigorous competitor in increasingly vibrant and thriving competitive markets.

58. ***Business Market Competition.*** As the FCC recognized last year in approving the SBC/AT&T merger, the retail market to provide telecommunications to business or "enterprise" customers is vigorously competitive. In the FCC's words, "competition in the enterprise market is robust" and would continue to thrive in the wake of that merger. *SBC/AT&T Merger Order* ¶ 73 n.223. "[C]ompetition for medium and large enterprise customers should remain strong after the merger because medium and large enterprise customers are sophisticated, high-volume purchasers of communications services that demand high-capacity communications services, and because there will remain a significant number of carriers competing in the market." *Id.* ¶ 56.

59. That analysis was correct at the time, and it applies even more strongly to the current situation in Kentucky. Indeed, in the period since the combination of SBC and AT&T Corp., not only has competition for medium- and large-sized business customers remained strong, but the growing penetration of emerging IP technologies has allowed a wide range of competitors to become even stronger and successfully to challenge established regional firms such as the BellSouth entities for all types of business customers.

60. Business customers in Kentucky have an enormous number of competitive choices. Those choices include interexchange carriers (such as Verizon, Sprint-Nextel, and Qwest), systems integrators (such as EDS, Science Applications International Corp., and

Computer Sciences Corporation), data/IP providers (such as Global Crossing, Level 3, Cinergy Communications, and Peak 10), CLECs (such as Time Warner, Telcove, Nuvox, and Cinergy Communications), and equipment vendors (such as Cisco and Avaya). Moreover, as the FCC explained, beyond the mere numbers of competitors, there are technological changes that are redrawing the competitive landscape and ensuring ample competition in the business market. "[M]arket share data does not reflect the rise in data services, cable and VoIP competition, and the dramatic increase in wireless usage. Foreign-based companies, competitive LECs, cable companies, systems integrators, and equipment vendors and value-added resellers are also providing services in this market." *SBC/AT&T Merger Order* ¶ 73 (footnote omitted).

61. Importantly, moreover, not only are there many competitive choices for these sophisticated customers, but also the competitive overlap between AT&T and the BellSouth entities in Kentucky is relatively narrow. AT&T focuses mainly on the largest retail business customers with a national and international presence, while the BellSouth entities focus predominantly on small- and medium-sized businesses within its region. Their core customer segments are thus largely complementary, and the combination of these companies will not limit the many choices available to business customers.

62. ***Mass-Market Competition.*** Mass-market competition has never been as vigorous, or from as many varied and sustainable choices, as it is today. Further, wireless carriers are now, by some measures, the predominant providers of long-distance services, and mass-market consumers are increasingly "cutting the cord" altogether. Traditional CLECs remain vigorous competitors in Kentucky. Moreover, rapid advances in IP technology have permitted cable companies to offer voice services to their customers, and they are aggressively marketing attractive bundles of telephony, video, and high-speed data services.

63. The data reflect this vibrant competitive landscape. According to the FCC's July 2005 *Local Competition Report*, as of December 31, 2004, there were 13 CLECs serving more than 220,000 end-user switched access lines in Kentucky. *See* Industry Analysis & Technology Division, Wireline Competition Bureau, FCC, *Local Telephone Competition: Status as of December 31, 2004*, at Tables 10, 12 (July 2005) ("*Local Competition Report*"), *available at* http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/lcom0705.pdf. This represents a substantial increase from the just more than 45,000 lines served in 1999. *See id.*, Table 8. Moreover, CLEC reporting to the FCC for this report is voluntary and therefore is very likely to understate CLEC lines. Such underreporting is substantiated by data reported to the Kentucky Commission by CLECs during the same time period as the relevant FCC report. This Kentucky PSC data indicate nearly 95,000 more lines than the FCC report indicates are being provided by CLECs.[10]

64. According to the same FCC report, as of December 31, 2004, at least 10 wireless carriers provided service to a total of approximately 2.2 million subscribers, an increase of nearly 21% from just the year before. *See Local Competition Report*, Table 13. Those 2.2 million wireless subscribers compare to just more than 2 million total end-user switched access lines in service in Kentucky as of December 2004. *See id.*, Tables 6, 13. Indeed as a result of all these forms of competition, in 2005 alone, BellSouth lost 4.8% of its retail residential lines region-wide. *See* BellSouth Corp., Form 10-K at 28 (SEC filed Feb. 28, 2006) (attached as Exh. H).

65. BellSouth's own data, previously provided to this Commission, are consistent with this evidence of significant competition. According to BellSouth's most recently filed

[10] CLEC reports for the 2004 reporting period were obtained from CLEC financial reports available at the Public Service Commission Utility Information System website. The link to the Utility Financial Reports site is http://psc.ky.gov/ufrnet/PublicRepSelect.aspx. Data for 2004 are considered to be End of Year 2004 data.

annual report on competitive entry in Kentucky, there are at least *six* competitors in every switching office in Kentucky, and, overall, there were nearly 310,000 CLEC lines as of June 2005. *See* Letter from Joan A. Coleman, BellSouth, to Elizabeth O'Donnell, Kentucky PSC, Case No. 2003-00304, Attach. 2 (Aug. 1, 2005). Based on those numbers, CLEC share of the wireline market has grown to 23% of the residential market and 25% of the overall market. *See id.* at 1. Even more recent data show that CLECs now have 24% of the mass market and 26% of the overall market.

66. Nor is this competition limited to traditional CLECs. Insight Communications, one of the largest cable providers in Kentucky, has offered phone service to its customers in Louisville and Lexington, Kentucky, since July 2004 and is now the fourth-largest phone provider in Kentucky.[11] Comcast, another Kentucky cable provider, has begun rolling out its VoIP service in major markets and will ramp up deployment across the country in 2006.[12] In addition, the cities of Murray and Frankfort offer the triple play of VoIP, internet, and video in their jurisdictions.

67. Moreover, the merger will not eliminate AT&T as a competitor in the mass market. In 2004, well before its merger with SBC in November 2005, AT&T Corp. made a unilateral and irreversible decision to cease actively marketing wireline local and long-distance service to residential customers in Kentucky and across the country. As the FCC explained in the *SBC/AT&T Merger Order*, "[r]egardless of what role AT&T played in the past, . . . AT&T's actions to cease marketing and gradually withdraw from the mass market mean *it is no longer a*

---

[11] *See* Insight Press Release, *Insight Announces Agreement to Transition Local Phone Service* (July 8, 2004), *available at* http://www.insight-com.com/releases_2624.htm; John Stamper, *The Cost of Phone Service for Most Kentuckians Would No Longer Be Regulated*, Lexington Herald-Leader, Mar. 8, 2006, at D1.

[12] *See* Craig Moffett, *et al.*, Bernstein, *Cable 4Q Preview: Comcast's VoIP Gets Ready for Ramp-Up* at 3 (Jan. 27, 2006).

significant provider (or potential provider) of local service, long distance service, or bundled local and long distance service to mass market consumers." *SBC/AT&T Merger Order* ¶ 103 (emphasis added). In this regard, the FCC specifically rejected as "speculative and unrealistic" arguments that AT&T "could readily and easily reverse its decision." *Id.* That analysis applies even more strongly today, when AT&T's decision to cease actively marketing wireline local and long-distance service in the mass market is even farther in the past.

E. The Indirect Transfer of Control Will Not Adversely Affect the Employment Outlook in Kentucky

68. The end result of the merger of AT&T and BellSouth will be a stronger long-term job outlook for the combined organization. The parties expect merger synergies to lead to a headcount reduction of 10,000 jobs across the combined company (which have approximately 317,000 employees) nationwide and over three years between 2007 and 2009. These synergies are expected to result from consolidation and the elimination of duplication in corporate headquarters functions, network and sales operations, information technology support, procurement, and advertising. In addition, the merged entity will remain bound by the terms of BellSouth Telecommunications, Inc.'s union contracts in Kentucky.

69. Crucially, prior to its merger with AT&T, SBC alone lost approximately 1,200 employees *per month* through normal attrition, *i.e.*, voluntary departures and retirement. The BellSouth entities likewise lose about 580 employees a month (or 6,960 per year) through normal attrition. Thus, AT&T and BellSouth believe that any headcount reduction that results from the merger will be easily absorbed through normal attrition.

70. In each of the previous major mergers involving AT&T (*i.e.*, SBC prior to its merger with AT&T Corp. in November 2005), most management employees retained their current positions, were offered new opportunities within the new company, or had their careers

enhanced as a result of the merger. Management employees whose jobs, in fact, are eliminated have typically been offered positions in other departments or locations. Union employees are offered other positions within the company in accordance with their contracts. There is no reason to expect anything different with this merger. In fact, in his letter to Mr. Ackerman mentioned above, Mr. Whitacre speaks to "the value we attach to a high quality workforce, and the experience and skills of the management and employees of BellSouth," and AT&T's intent "to broadly utilize the services of the management and employees of BellSouth following the closing of the Merger." Whitacre Letter (attached as Exh. C).

F. Related Governmental Filings

71. In addition to filings with the Commission, AT&T and BellSouth are taking steps to satisfy the requirements of other government entities with respect to the merger. For example, the FCC will undertake a detailed review of the merger. In addition, the Department of Justice will conduct its own review of the competitive aspects of this transaction pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules promulgated thereunder. Finally, commissions in States throughout BellSouth's region will be reviewing the merger in the context of informational filings and/or applications for approval.

G. Verifications

72. Verifications of this document on behalf of AT&T and BellSouth are attached to this Joint Application.

IV. CONCLUSION

73. For the foregoing reasons, we respectfully request that the Commission expedite its review and approve this Joint Application within 60 days as set forth in KRS 278.020(6), granting any other relief deemed necessary and appropriate to effect the Merger Agreement.

Respectfully submitted, this the 31st day of March 2006,

FOR BELLSOUTH CORPORATION, BELLSOUTH TELECOMMUNICATIONS, INC., and BELLSOUTH LONG DISTANCE, INC.

Cheryl R Winn

Creighton E. Mershon, Sr.
Cheryl R. Winn
601 W. Chestnut Street,
Room 407
Louisville, Kentucky 40203
(502) 582-1475 (Telephone)
(502) 582-1573 (Facsimile)
Cheryl.Winn@bellsouth.com

James G. Harralson
Lisa S. Foshee
675 West Peachtree
Suite 4300
Atlanta, Georgia 30375
(404) 335-0750 (Telephone)
Lisa.Foshee@bellsouth.com

628326

FOR AT&T INC.

H. N. McTyeire, V by CRW with permission

Holland N. ("Quint") McTyeire, V
Greenebaum Doll & McDonald PLLC
3500 National City Tower
Louisville, Kentucky 40202
(502) 587-3672 (Telephone)
(502) 540-2223 (Facsimile)
hnm@gdm.com

Wayne Watts
Martin E. Grambow
D. Randall Johnson
David Eppsteiner
AT&T Inc.
175 East Houston
San Antonio, Texas 78205-2233
(214) 464-3620 (Telephone)
eppsteiner@att.com

Sean A. Lev
Kellogg, Huber, Hansen, Todd,
Evans & Figel, PLLC
1615 M Street, N.W., Suite 400
Washington, D.C. 20036
(202) 326-7975 (Telephone)
(202) 326-7999 (Facsimile)
slev@khhte.com

VERIFICATION

Sylvia E. Anderson, being duly sworn, states that she is the Vice President – Southern Region Legislative and Regulatory Affairs, and in this capacity is authorized to execute this Verification to the Joint Application on behalf of AT&T Inc. and that the facts set forth in the Joint Application are true and correct to the best of my knowledge, information and belief..

Sylvia E. Anderson

Sworn to and subscribed before me
this 29 day of March, 2006

Notary Public

My Commission Expires: Notary Public, Fulton County, Georgia
My Commission Expires July 22, 2008

VERIFICATION

Eddy Roberts, being duly sworn, states that he is the State President – Kentucky, BellSouth Telecommunications, Inc. and in this capacity is authorized to execute this Verification to the Joint Application on behalf of BellSouth Corporation and that the facts set forth in the Joint Application are true and correct to the best of his knowledge, information and belief.

Eddy Roberts

Eddy Roberts

Sworn to and subscribed before me
this 29th day of March, 2006

Bobbie A. Smith

Notary Public

My Commission Expires: January 4, 2007