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November 24, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
Room TWB-204
445 12th Street, SW
Washington, DC 20554

Re: CS Docket No. 99-251, *In the Matter of Applications for Consent to the Transfer of Control of Licenses—MediaOne Group, Inc., Transferor, to AT&T Corp., Transferee*

Dear Ms. Salas:

AT&T Corp. submitted the attached letter today to Ms. To-Quyen Truong of the Commission staff in connection with this proceeding. Copies were also provided to Sunil Daluvoy and Royce Dickens of the Commission staff.

An original and two copies of this letter are submitted herewith in accordance with Section 1.1206(b) of the Commission's rules.

Sincerely,

Stephen C. Garavito

Stephen C. Garavito

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November 24, 1999

Ms. To-Quyen Truong
Associate Chief
Cable Services Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: In the Matter of Applications for Transfer of Control to AT&T Corp. ("AT&T") of Licenses and Authorizations Held by MediaOne Group, Inc. (MediaOne")

Dear Ms. Truong:

This letter is a further response by AT&T and MediaOne to your November 3, 1999 request for information. It supplements our initial response dated November 22, 1999. This submission will be supplemented as additional information becomes available.

Question 4: If Liberty is spun off from AT&T, identify the parties that will be responsible for the resulting tax liability and explain the basis for the tax liability. Is the Liability a capital gains tax? How will the tax liability be calculated? Is the amount of the liability tied to Liberty's performance or value at the spin-off date? Please approximate the amount of the tax liability and the proportionate amount of that liability that each party will bear.

Response to Question 4: AT&T has never intended to spin off Liberty, and believes that any such action could result in significant tax liability for AT&T or Liberty shareholders. Whether there would ever be any different result would require speculation regarding the circumstances, the economic facts that would then apply, and possible rulings from the IRS. Because AT&T cannot with any degree of certainty predict how these speculative matters would be resolved, AT&T is unable to respond more specifically to this question at this time.

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Question 6: Please provide:

a. **All contracts and documents relating to AT&T's agreements, negotiations, and strategies for negotiation with content and service providers for the provision of content and services over advanced digital set top boxes deployed by AT&T and its affiliates.**

b. **A detailed description of AT&T's plans for deployment of advanced digital cable set top boxes over its owned and controlled and affiliated cable systems. This description should specify the services, content and content providers that AT&T plans to provide over its advanced digital set top boxes, and the projected time-table for such roll-out.**

Response to Question 6:

AT&T has plans to offer certain advanced digital cable services ("ADS") and deploy advanced digital cable set-top boxes ("ASTBs") in all of its upgraded owned and operated systems. AT&T is in the process of developing its offerings for its advanced digital platform. The ADS offerings currently under consideration include E-mail services, E-Wallet services, interactive services, including ticketing, banking, gaming, books, auctions, and investing, chat room services, address book services, E-Care services, interactive advertising, browsing, searching and television programming. The proposed services are described in greater detail in documents that AT&T is providing separately to the Commission under the protective order. AT&T has not yet finalized the ADS offerings to be deployed in any system. Deployment of the ADS offerings with AT&T's ASTBs is expected to begin with alpha testing (a limited deployment) in July 2000 and beta testing (a larger deployment) and general availability in or about October 2000.

As part of its rollout of ASTBs, AT&T will negotiate arrangements with content and service providers to provide the interactive offerings described above. Such arrangements are commonplace in the industry. ISPs such as AOL, for example, negotiate with content and service providers for preferential placement on the ISP's home page. At the same time, AT&T subscribers will be able to access the universe of content and service providers through the Internet capability of the ASTB.

In addition, AT&T is working with Microsoft, in accordance with the terms of its agreement with Microsoft, to deploy ADS and ASTBs based on Microsoft technology in three showcase cities, which have not yet been mutually agreed upon by the parties. AT&T proposes to deploy the same, or comparable, offerings in the showcase cities as it expects to deploy on its advanced digital platform. The AT&T/MS Agreement also contemplates the use of other services provided by Microsoft and/or third-parties. AT&T and Microsoft currently are in discussions concerning the use of other Microsoft services in connection with Microsoft technology.

It is important to note that AT&T has taken active steps to ensure a multi-vendor environment for ATSBs, both through open software interfaces and through the development of alternative hardware vendors. For example, AT&T recently announced that it will soon pick a second supplier of ASTBs with the goal of having a secondary source of ASTBs for the retail market by Christmas 2000. See attached document Bates Nos. AT&T 000779 through AT&T 000781.

Finally, you have also asked for a description of third-party content providers that AT&T plans to provide over its advanced digital set top boxes. Aside from the products and services mentioned above, we are unable to provide this information at this time because AT&T's plans are only tentative. AT&T is currently involved in highly sensitive commercial negotiations with third-party content and service providers. Accordingly, because these negotiations are ongoing, it would be injurious to AT&T if AT&T's strategies and plans with respect to providers were to be disclosed, even subject to the terms of the protective order entered in this proceeding. However, AT&T is producing separately, under the protective order, representative agreements with content and service providers that have been executed.

Question 8: The Application (at p.30) states that the merger of AT&T and MediaOne would "accelerate the development and deployment of digital cable technology on MediaOne'' systems."" Please describe (a) MediaOne's pre-merger plans for the deployment of digital cable technology and (b) AT&T's post-merger plans for deployment of digital cable technology on MediaOne systems.

Response to Question 8: Prior to the merger, MediaOne had chosen to focus on increasing the analog capacity of its cable systems rather than aggressively implementing digital cable technology in its systems. In 1999, MediaOne began its initial roll-out of digital cable technology but expects to have only about 40,000 digital cable subscribers by year end. MediaOne has experienced problems due to, among other things, the lack of sufficient personnel experienced in digital technology and its inability to handle significant numbers of installations. AT&T, by contrast, has been a leader in the deployment of digital cable technology. AT&T is adding about 2,500 new digital subscribers daily, and has deployed roughly 2 million digital set top boxes throughout its cable systems. Although AT&T and MediaOne have not developed any formal plans for the deployment of digital cable technology in MediaOne's service areas, AT&T expects that its experienced personnel as well as the processes it has developed to handle high volumes of digital cable orders will accelerate MediaOne's deployment of digital cable technology. In this manner, customers in MediaOne's service areas will more quickly realize the benefits that the increase in cable system capacity caused by digital cable technology permit, *e.g.*, the delivery of more services to consumers, including local and regional programs, niche channels that may be of interest to a small segment of the audience, minority programming, and other diverse services. Accelerated deployment of digital cable technology will also benefit programmers by creating new opportunities for the distribution of their product.

Question 9: Please describe the role of AT&T's network or other assets (including the assets of Teleport Communications Group (TCG)) in AT&T's provision of local telephony service over the cable network. Please describe how AT&T's strategy might differ in markets where TCG does not have facilities.

Response to Question 9: AT&T will use switches from AT&T Local Services (ALS, the former TCG) to provide switching for AT&T's cable telephony service. Where spare capacity is available, AT&T and MediaOne will share switches. For example, AT&T and MediaOne have reached tentative agreement to share switches in the Atlanta and Boston areas. Such sharing will ensure that the combined AT&T-MediaOne switches will be utilized more efficiently. In similar fashion, MediaOne will use AT&T's transport facilities where they are available, and AT&T will use under-utilized MediaOne transport facilities. In addition, combined and standardized network operations centers, customer service centers, and disaster recovery teams will permit efficiencies of scale that will help lower cable telephony rollout costs and permit AT&T to meet or exceed its own cable telephony deployment schedules. In those areas where ALS does not have switches currently, AT&T will rely on MediaOne switches, if they are in the area and have spare capacity, or will deploy new switching capability.

Question 10: Please describe AT&T's strategy to provide local telephony and Internet services in MediaOne's markets prior to the date when AT&T and MediaOne began negotiations for the merger, and produce all documents generated since June 30, 1998, that concern any plan or strategy to provide these services in MediaOne markets.

Response to Question 10: Prior to the negotiations with MediaOne, AT&T had made the decision that, whenever possible, it would rely on its own facilities to provide local telephony services. For residential customers, AT&T identified two potential means of providing facilities-based service – cable and fixed wireless. Of these two, AT&T's first choice is cable, because it permits AT&T to offer a "richer" offer to customers, *i.e.*, one that includes entertainment, data, and local telephony. This choice is evidenced by the merger with TCI, as well as AT&T's pursuit of telephony joint ventures with a number of unaffiliated cable companies. In fact, AT&T pursued such discussions with MediaOne, but the parties were unable to reach agreement on a joint venture because, among other things, they could not agree on the roles of the venture as well as those of each partner. See Declaration of Douglas D. Homes, filed September 17, 1999, ¶¶ 5-6.

AT&T is also testing the provision of local exchange service through fixed wireless technology via a trial in Dallas, Texas. Because of the limited spectrum available, fixed wireless currently does not offer customers as rich an offer as is available through cable. However, where customer density and base site availability make provision of fixed wireless economical, AT&T will attempt to provide local service using this technology.

Documents previously produced to the Commission illustrate AT&T's strategy where it does not have its own facilities available. See document Bates Nos. AT&T 000067 through AT&T 000079. Where AT&T cannot obtain access to cable facilities, or such facilities have not yet been upgraded to provide telephony, AT&T plans to offer local telephone service to residential customers using combinations of network elements obtained from incumbent local exchange carriers (the "UNE platform" or "UNE-P").[1] As its cable facilities are upgraded to provide local telephony, and as AT&T succeeds in introducing fixed wireless capability, AT&T intends to transition those local service customers initially served via UNE-P to the facilities-based options of cable and fixed wireless.

Question 11: Please submit all documents discussing the advantages and disadvantages of a merger between AT&T and MediaOne, or comparisons of such a merger with other strategies for AT&T's offering of high-speed Internet or local telephony services to residential customers.

Response to Question 11: AT&T will provide separately under confidential seal additional documents that show the advantages of the merger with MediaOne.

Question 12: Please provide a description of and submit all documents related to each efficiency (including cost savings, new product introductions, and service or product improvements) that AT&T anticipates will result from the proposed merger, including in the description: (1) the steps that the company anticipates taking to achieve the efficiency, the risks involved in achieving the efficiency and the time and costs required to achieve it; (2) a quantification of the efficiency and a detailed explanation of how the quantification was calculated; (3) a detailed explanation of how the proposed merger would allow AT&T to achieve the efficiency; and (4) each alternative by which AT&T could achieve the efficiency without the proposed transaction. For efficiencies that involved cost savings, state separately the one-time fixed cost savings, recurring fixed cost savings, and variable cost savings (in dollars per unit and dollars per year).

Response to Question 12: The proposed merger will create significant public efficiency benefits in two general areas. First, by combining their complementary assets,

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[1] Despite the clear language of the 1996 Telecommunications Act, and a Supreme Court decision upholding the Commission's decision to require incumbent LECs to provide UNE-P, several incumbents have refused to provide such combinations of network elements to competitive carriers. Even where an incumbent LEC agrees in principle to provide UNE-P, it must have nondiscriminatory process and procedures in place to provision and support such network elements before competitive LECs such as AT&T can provide competitive local service effectively in that area.

AT&T and MediaOne will greatly increase competitive pressure on the local telephone monopolies in MediaOne's service areas. This will produce immediate benefits in the form of lower prices, better quality and increased innovation in the provision of local telephone services in MediaOne's service areas. The merger of AT&T and MediaOne also promises longer term (and equally important) benefits in creating competitive market constraints on the ability of these same incumbent monopolists to leverage their existing monopolies into the provision of other services.

Second, the merger will allow the combined entity to gain substantial economies of scale, scope and clustering. Economies of scale will result from the expanded footprint and subscriber base of the post-merger cable network. Economies of scope will result from offering telephone, data, and broadband services over MediaOne's cable platform at increased penetration levels. And economies of clustering will result from the ability to use common assets or activities to service adjacent or neighboring territories.

Where it is possible to do so, Applicants have included numerical estimates of the efficiency benefits described in this and previous submissions. The forward-looking nature of these anticipated efficiency gains obviously precludes their precise quantification. As Applicants have previously demonstrated, however, neither the existence nor the great magnitude of these benefits can seriously be questioned. There is widespread recognition among industry and market analysts and the local monopolies themselves that this Merger promises a paradigm shift in the competitive environment in MediaOne's service areas. The incumbents' monopoly battlements remain unscaled nearly four years after Congress directed them to open the gates to competition, and the threat of facilities-based competition by AT&T is the first -- and only -- entry strategy that has provoked any real competitive response.

Description of Benefits.

Increased Facilities-Based Competition. Combining the complementary assets of AT&T and MediaOne will create the first large-scale facilities-based competition to the large incumbent local telephone monopolists in MediaOne's service areas. By enabling and encouraging mass market consumers to bypass the incumbents' bottleneck local loops by choosing AT&T branded and operated local telephone service, the Merger will create a new competitive environment in which the monopoly rents currently paid by consumers of local telephone service in MediaOne's service territory are competed away.

The complementary assets that will permit successful competitive entry include: (1) MediaOne's existing cable network to millions of households, most of which has already been upgraded to provide high-speed two way service; (2) MediaOne's technical expertise in deploying circuit-switched local telephony services over cable; (3) AT&T's brand name and reputation as a reliable provider of communications services; (4) AT&T's experience and resources in marketing and customer care; (5) AT&T's experience in obtaining interconnection and other agreements with ILECs; and (6) AT&T's head start in developing IP telephony.

MediaOne's cable network, which reaches millions of households, is a facilities-based vehicle for entering local telephony that AT&T could not duplicate without prohibitive expense and great delay. MediaOne's cable network currently passes 8.5 million homes and serves 5 million video customers. AT&T neither owns nor operates a large-scale cable or local telephone network in any of MediaOne's service areas. Without the MediaOne merger, AT&T would face the far costlier, slower, more litigious and less certain prospect of entry through other means such as the purchase of unbundled network elements from incumbent LECs.

MediaOne also contributes its recent and planned upgrades of the existing cable network and its technical experience in deploying circuit-switched local telephony services over that network. MediaOne is nearing the end of a massive seven-year program to upgrade its network to handle high-speed two-way voice and data service, along with a platform for digital video service. The complete upgradeincludes 750MHz hybrid fiber/coaxial cable ("HFC"), two-way amplifiers, power passing taps, and advanced headend, distribution hub and node electronics for new services. So configured, the network can handle not only enhanced analog video (electronic program guide, pay-per-view, music, expanded channel offering) but also high speed data (e.g., fast Internet access), telephony, enhanced digital video (video on demand, web surfing), standard definition television, and high definition television. Nearly half of the MediaOne network already has received the network upgrades and service specific network equipment needed for high speed data service; 72 percent will be upgraded to this level by the end of 2000. MediaOne is already marketing local telephone, cable Internet and other non-video services in seven of its markets. Earlier this year the Commission recognized the profound competitive benefits of an AT&T branded and operated cable telephony service in approving AT&T's acquisition of TCI cable systems that required substantial upgrades before that service would even be possible. The very different state of MediaOne's cable plant guarantees that these same competitive benefits previously recognized by the Commission are both more certain and more imminent in the MediaOne service areas.

Moreover, MediaOne's experience and know-how in upgrading cable plant and deploying two-way service should also bring benefits to customers in TCI's service areas. In particular, Applicants expect that upgrade and deployment expertise gained from MediaOne personnel will enable AT&T to improve its deployment of circuit-switched cable telephony on TCI systems until IP-based cable telephony can be deployed on those systems.

The most important complementary assets that AT&T brings to the merger are its brand name, reputation and experience as a reliable provider of two way communications services. Third party surveys have confirmed that AT&T remains the leading brand name in telephony. *See* International Data Corp. Press Release, October 12, 1999 ("IDC's survey revealed the brand game is AT&T's to lose. The company ranked as the best known, best trusted, and most powerful brand"); International Data Corp. Press Release, August 17, 1999 (AT&T has the greatest awareness of all telecommunications brands); Interbrand Group Press Release, June 22, 1999 (ranking AT&T ninth overall in

Interbrand's World's Most Valuable Brands survey) (Document Bates Nos. AT&T 000772 through AT&T 000781, attached).

Notwithstanding that MediaOne is among the most respected providers of traditional video services, MediaOne's brand enjoys far less strength among consumers with respect to local telephone service. A 1997 study performed for AT&T, for example, ranked local telephone service brand preference as follows (AT&T scaled to equal 100):

Bell Atlantic	129
SNET	123
U S West	121
GTE	106
SBC	104
AT&T	**100**
PacBell	99
Ameritech	94
BellSouth	90
Sprint	50
MCI	46
AllTel	23
Comcast	17
Excel	17
Time Warner	17
Cellular One	16
Cablevision	16
Microsoft	16
TCI	14
Cox	12
Airtouch	11
10-321 (Telecom USA)	10
AOL	9
IBM	9
Netscape	8
WorldCom	8
Prodigy	7
NexTel	6
Compuserve	6
Erol's	6
Centel	6
MediaOne	**5**[2]

MediaOne's reputation in this regard has undoubtedly improved as it has pursued its laudable telephony deployment campaign, but the enormous advantage enjoyed by the incumbent LECs over *all* cable companies – but not AT&T – is both stark and undeni-

[2] A copy of this survey is being submitted under separate cover.

able. MediaOne's own surveys produced separately, under the protective order, confirm this reality. AT&T's telephony brand and reputation will allow the combined entity to challenge the incumbent LECs' bottleneck monopolies in ways and on a scale that a stand-alone cable company simply could not hope to accomplish.

AT&T also brings to the merger its valuable and unequalled experience and resources in marketing and customer care. AT&T's experience in vigorously competitive markets includes two decades of experience marketing long distance services in competition with MCI, Sprint, and hundreds of other aggressive rivals, as well as significant experience in the mass market Internet business. AT&T's resources in marketing and customer care include its large and well-established organizations devoted to customer segmentation, customer service, and billing.

A related AT&T asset is its costly but invaluable experience negotiating the hurdles of obtaining interconnection and unbundled network elements from ILECs. This experience includes more than three years of litigating and negotiating interconnection agreements with ILECs in literally hundreds of hotly contested proceedings in virtually every state. Interconnection with incumbent providers on nondiscriminatory terms is a competitive necessity. Few customers are likely to switch to an entrant that cannot provide its customers with the ability to communicate on reasonable terms with the vast majority of customers that will continue to be served by the incumbent. MediaOne has previously catalogued to the Commission the difficulties it has faced in persuading incumbent LECs to comply with the most basic interconnection obligations. Experience with TCG and TCI confirms that the merger will aid MediaOne in expediting the process of gaining just and reasonable interconnection to the incumbents' networks. AT&T, TCG and TCI now have the ability to field a unified negotiating team for each regional Bell operating company. This not only produces obvious efficiencies, but has already helped the former TCG and TCI operations to neutralize some of the edge in bargaining leverage previously wielded by the incumbent LECs by virtue of their disproportionate size and resources.

The combined entity will also benefit from AT&T's know-how in packet-switched IP telephony. AT&T Laboratories includes a staff of 50 professional researchers working on IP telephony, including ten professionals devoted specifically to the development of IP telephony over cable. With expertise in both telephony and cable, these researchers are at the forefront of developing open cable IP telephony standards. One researcher, for example, was the lead drafter of the Distributed Call Signaling portion of the upcoming Packet Cable specifications. Similarly, another member of AT&T Labs had a major role in the development of the voice coding ("CODEC") portion of the specifications to help ensure that packetized telephony protocols would allow adequate voice quality. Engineers at AT&T Labs have also developed the "LightWire" architecture, which should improve cable performance and reduce recurring expenses. AT&T is already implementing this architecture on a trial basis in Salt Lake City.[3]

[3] Moreover, AT&T already is providing non-cable IP telephony through its Connect 'n Save™ offer. Through this service, AT&T has gained experience in routing packetized

As noted, MediaOne has already begun marketing telephony and other new services over its cable platform in seven metropolitan areas: Atlanta, Detroit, Boston, Richmond/Petersburg, Jacksonville, Miami/Ft. Lauderdale and Los Angeles. Rollout in the Minneapolis/St. Paul metropolitan area is planned for next month. The Fresno area is scheduled for August 2000. It is not anticipated that the merger will accelerate the number of metropolitan areas covered by the rollout. Rather, the merger will enable AT&T and MediaOne to achieve *faster* and *deeper* penetration in each market, thereby providing the only prospect of a real, near-term competitive threat to incumbent providers sufficient to provoke meaningful competitive responses. As the Commission recognized in the TCI proceeding, it is this merger-specific product of the parties complementary assets -- and not the mere *availability* of cable-delivered telephone service – that is the principal merger benefit.

Scale economies. The merger will achieve economies of scale by expanding the footprint and subscriber base of the post-merger cable network (in which the MediaOne cable networks will be integrated with AT&T's switches, transport network and databases), thereby reducing the unit cost of service. Inputs that have increasing returns to scale include: switching, signaling and databases, network operations and technology services, disaster recovery and backup redundancy (backup generators, switches, and smaller equipment), back-office systems, customer care, and sales, general and administrative expenses.

Increased scale will enable MediaOne to lower the *unit cost* of many inputs. With greater scale, MediaOne will be able to obtain lower prices from vendors by buying in greater bulk. Applicants estimate that volume discounts already available to the combined entity would enable MediaOne to reduce the unit prices paid for SONET and switches, HFC telephony equipment, and fiber by five to ten percent or more.

Another likely scale benefit from the merger is an increase in the *quality* of inputs offered to AT&T cable systems. The TCI and MediaOne transactions represent a $100 billion vote of confidence in cable telephony by AT&T. The demonstration effect of these transactions, and the rollout of cable telephony over the former TCI and MediaOne systems, provide a powerful incentive for major equipment vendors such as Lucent and Motorola to accelerate their development of more powerful, advanced and economical equipment for this market.

Scope economies. The merger will also generate substantial economies of scope. By achieving greater penetration of telephone and internet markets than either company would alone, the merged entity can offer new services over the existing MediaOne cable platform at a substantially lower incremental cost than the cost of providing the same services to the same customers on separate platforms.

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voice through its network. This experience will also help improve the eventual transition of MediaOne's local telephony from a circuit-switched offering to a packet-based offering.

Scope economies arise in a number of ways. Cable video services and new services can share the same cable, conduit, trenches, and other support structure for outside plant. Because the provision of additional services imposes no additional burden on the right-of-way, additional easements and franchise certification costs are unnecessary. Similarly, cable video and new services can share the support of combined and standardized marketing, network operation centers, customer service centers, sales, marketing, billing, bill processing, provisioning, disaster recovery systems, training facilities and staff, and central administrative staff. Further, AT&T can use the local telephone facilities that it obtained through its acquisition of TCG to interconnect the MediaOne network to incumbent networks at end offices rather than tandem switches, thereby avoiding the incumbent LECs' charges for needless tandem switching and shared transport.

Clustering economies. The merger will also generate substantial economies by allowing the combined entity to concentrate its cable footprint in denser clusters. In particular, the following MediaOne service areas are adjacent or close to AT&T/TCI service areas:

MediaOne	AT&T/TCI
Eastern Massachusetts	North central Connecticut
Detroit	Southern Michigan
Central Ohio	Southwestern Ohio
Atlanta	Central and northern Alabama
Jacksonville	North central Florida
Sacramento area	San Francisco area

The geographic proximity of clustered service areas enables the sharing of switches, customer care and equipment service operations, and marketing (particularly when the two or more service areas are in the same newspaper or television markets).

Time and Costs Needed To Achieve Benefits; Risks Of Failure. AT&T and MediaOne believe that the operational steps described above can be completed within a few months after the merger closes. Although any competitive venture risks failure, the anticipatory responses of the incumbent telephone monopolies and dominant internet service provider America Online are eloquent testimony to their belief that the merged entity is uniquely likely to succeed. Further, regardless of whether the proposed merger ultimately succeeds in generating the returns anticipated by AT&T and its shareholders, it is clear that the merger will benefit consumers in MediaOne's service areas by giving them a local telephone alternative preferable to anything that either company could offer alone.

Quantification of benefits: Applicants have commissioned, and will submit in the near future, economic analyses that quantify the enormous monopoly rents that incumbent monopoly providers currently extract from their customers, and which can finally be competed away if AT&T and MediaOne are allowed to break the monopoly bottlenecks and create a new competitive environment in MediaOne's service areas. The benefits associated with preventing these monopolists from extending their bottlenecks to new services, although not susceptible of precise quantification, are likely to be as great.

Although forward-looking estimates of merger economies are necessarily imprecise, the transaction price paid by AT&T reflects its judgment that the economies are likely to be large. Analyses by AT&T, MediaOne and investment bankers support this conclusion.

(1) In the third quarter of 1998, MediaOne staff prepared an analysis of the potential economies available from a doubling of MediaOne's size in terms of homes passed (without any increase in penetration ratios). MediaOne estimated cash flow increases of 9-17 percent and earnings increases (before taxes, depreciation and amortization) of 12-24 percent (with the variations turning on assumptions regarding the impacts of the size increase on clustering potential). These increases reflected projected cost savings per subscriber in the range of five to 15 percent for a number of expense categories, including corporate overhead, regional overhead, network operations, programming, marketing and sales expense, and capital expenditures.[4]

(2) AT&T has estimated that MediaOne's cable telephony revenues post-merger would be $1.3 billion higher in 2004 with the merger than without it, and that MediaOne's telephony penetration of homes marketed in 2004 would be 30 percent with AT&T versus 16 percent without AT&T. AT&T further estimated annual synergies from the merger, excluding those due to revenue enhancements, of $175-200 million per year. Goldman Sachs estimated synergy improvements in 2002 of $1.574 billion in annual revenues and over $500 million in annual EBITDA. These synergies are *in addition to* already planned cost reductions of $2 billion in annual sales, general and administrative expenses.[5]

Alternate means of gaining the same benefits. No alternative means are likely to attain the same benefits. As AT&T and MediaOne have previously explained, the incumbent LEC monopolies have been enormously resistant to competitive entry. The limited effectiveness since the 1996 Act of entry through the purchased of unbundled network elements or the resale of wholesale services demonstrates that broad-scale facilities-based entry is the only plausible way to inject effective competition into local exchange markets for the foreseeable future. Large-scale facilities-based entry is unlikely to occur through the solo efforts of MediaOne or other cable companies: the modest success of even well-managed providers of cable service in penetrating local telephone markets confirms that cable companies lack the brand reputation needed to gain market share rapidly among consumers. For the reasons previously explained by AT&T and MediaOne, joint ventures and other contractual arrangements to provide local telephone

[4] The MediaOne analysis is being provided separately, under the protective order.

[5] These documents are being provided separately, under the protective order.

services are difficult to negotiate and structure. Scale, scope, and clustering merger-related synergies likewise are available only through the merger.

Question 13: Please provide: (a) maps showing current and planned deployment of circuit-switched and packet-switched telephony services in AT&T and MediaOne service areas, including information identifying the income levels of subscribers in areas identified on the maps; (b) schedules for completion of telephony-related upgrades in AT&T and MediaOne service areas; and (c) a narrative explanation of the foregoing, including a discussion of how the merger will affect each company's plans for deployment and the actual rollout of services.

Response to Question 13: AT&T has provided under separate confidential seal certain maps depicting AT&T's deployment of telephony services in specific geographic locations. Moreover, MediaOne has separately made available certain maps depicting its deployment of telephony services in the Richmond, VA, Los Angeles, CA and Atlanta, GA markets. With respect to (b) and (c), MediaOne is providing separately under confidential seal its schedule for the upgrade of its systems and deployment of cable telephony. It is anticipated that MediaOne will continue its upgrade and deployment in accordance with this schedule. Post-merger, the addition of AT&T's brand, consumer marketing expertise, and customer care infrastructure and experience, as well as realization of the efficiencies identified in response to Question 12 should increase significantly the acceptance of MediaOne's telephony offer by local consumers. AT&T is submitting separately under confidential seal a schedule of its planned deployment of cable telephony.[6] Access to the expertise MediaOne has gained through its roll-out of circuit-switched cable telephony will help AT&T roll out cable telephony quicker and more successfully than AT&T could do absent the merger.

Question 14: Please provide a description of, and all documents related to, AT&T's post-merger strategy to provide local telephony and Internet services in MediaOne's markets, including the anticipated steps, investments, revenue increases, and timetables for the rollout of each service. Identify the extent to which the introduction of each services is dependent on and specific to the merger, and provide all documents that are relied on to support you response.

Response to Question 14: Because the merger has not been consummated, AT&T and MediaOne have not completed any formal planning regarding post-merger activity in MediaOne's service areas. Post-merger, MediaOne will complete its upgrade of its cable systems to 2-way capability and continue its deployment of cable broadband

6 For the Commission's convenience in reviewing this document, "ORT" refers to operational readiness testing, "SRT" refers to service readiness testing, and "MRT" refers to market readiness testing.

capability and circuit-switched cable telephony capability in accordance with its existing aggressive schedule. The use of AT&T's brand in these efforts will accelerate the acceptance of such services by residential consumers. In particular, AT&T's brand and backing will make it easier to convince residential customers to switch their local exchange service from the incumbent LEC most have used all their lives. In addition, the efficiencies noted in response to Questions 9 and 12 will permit MediaOne to realize significant cost savings that will permit it to promote its new services more aggressively and further accelerate their acceptance by consumers. AT&T expects that its brand and backing will permit MediaOne to halve the time it would otherwise take to maximize its telephony penetration, such that the AT&T-MediaOne telephony penetration will be double that which MediaOne could obtain on its own, *i.e.*, 30% local telephony penetration in five years for MediaOne with AT&T versus 16% penetration by MediaOne alone. Access to AT&T's IP telephony expertise described in the response to Question 12 will also result in an accelerated MediaOne roll-out of IP telephony.

Question 17: Please identify all interests held by AT&T or Liberty Media in:

a. **MDS licensees serving, in whole or in part, any portion of a cable franchise area in which AT&T or MediaOne (including TWE, TWE Advance/Newhouse, or TWI Cable) are authorized to provide service.**

b. **Television broadcast stations whose predicted grade B contour cable franchise area in which AT&T or MediaOne (including TWE, TWE Advance/Newhouse, or TWI Cable) are authorized to provide service.**

c. **SMATV operators serving any portion of a cable franchise area in which AT&T or MediaOne (including TWE, TWE Advance/Newhouse, or TWI Cable) are authorized to provide service.**

Response to Question 17: Neither AT&T nor Liberty holds any of the interests referenced in part (a) of this question. With respect to subpart (b), Liberty holds non-attributable interests in Telemundo and the Home Shopping Network. These interests have been found to be non-attributable for purposes of the Commission's cross-ownership rule (47 C.F.R. § 76.501). *See Roy M. Speer*, 11 FCC Rcd. 14147 (1996); *modified* 11 FCC Rcd. 18393 (1996) (Home Shopping Network); Letter of Barbara A. Kreisman, Chief, Video Services Division, Mass Media Bureau, to Tom Davidson, Esq., et al, File No. BTCCT-97123-PA-OC, rel. July 30, 1998 (Telemundo); pending Application for Review to Commission, filed August 6, 1998 (Univision Communications, Inc.). With respect to subpart (c), AT&T acquires from time to time SMATV systems in its franchise areas. Pursuant to Commission rules, any such SMATV system is either connected to the existing cable plant or operating in compliance with the cable franchise.

Question 18: If you state in response to requests numbers 16 and 17 that AT&T or MediaOne (including TWE, TWE Advance/Newhouse, or TWI Cable) has any interest in MDS licenses, television broadcast stations, or

SMATV operators, please explain whether such interest does or would, as a result of the merger, violate the Commission's buy-out and cross-ownership rules as set forth in 47 C.F.R. §§ 21.912 and 76.501.

Response to Question 18: See above.

Question 19: Does MediaOne (including TWE, TWE Advance/Newhouse, or TWI Cable) have any interests in a competitive or incumbent local exchange carrier? If so, please identify the following:

a. The name of the carrier and level of ownership interest.

b. Whether AT&T's acquisition of such interest would violate the prohibition on buy-outs as stated in 47 U.S.C. § 572.

Response to Question 19:

(a) MediaOne owns approximately 14.7 percent of the outstanding public stock of Time Warner Telecom, Inc. ("TWT"), with a voting interest of 18.3 percent. TWT is a publicly-traded competitive local exchange carrier that provides telephone exchange service and other telecommunications services to business customers.

In the interest of completeness, AT&T is providing separately, under the protective order, a chart which shows areas of overlap between MediaOne's cable franchises and the areas where AT&T is or will be providing local telecommunications services using its own switching facilities by 3Q 2000.[7/] As this chart indicates, AT&T Local Services ("ALS") owns as little as one switch in many of these areas. Upon completion of the merger, AT&T may utilize its existing local switches in conjunction with MediaOne's cable facilities in a few markets to provide residential telephony on a trial basis.

MediaOne provides local telephone service in only seven of the areas where AT&T has local switching facilities.[8/] MediaOne's telephone service is aimed at the "mass market," rather than the "local business market" to which AT&T Local Services provides its service.[9/]

7/ While AT&T has endeavored to be as accurate as possible, note that the MSAs where AT&T has switches and MediaOne's cable franchise areas have different boundaries, and the areas of overlap are therefore not exact.

8/ *See* Public Interest Statement at 15. The cities in which MediaOne provides local telephone service are Atlanta, Los Angeles, Jacksonville and Pompano, Florida, Boston, Detroit, and Richmond.

9/ *See Memorandum Op. and Order, Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Tele-Communications, Inc., Transferor, to AT&T Corp., Transferee*, 14 FCC Rcd 3160 at ¶ 45 (describing at