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AT&T

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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

RE: Notice of Oral Ex Parte
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")
CS Docket No. 99-251

Dear Ms. Roman Salas:

Yesterday, Susan M. Eid of MediaOne and Howard J. Symons of Mintz Levin Cohn Ferris Glovsky and Popeo, and I met with Thomas C. Power, Senior Legal Advisor to Chairman William E. Kennard. During the meeting, we discussed AT&T's proposal that the Commission grant AT&T a waiver of the applicability of its horizontal rules following the expiration of which AT&T would come into compliance with such rules as they then apply. We also discussed the public interest benefits of the proposed merger. A copy of the presentation used during the meeting is attached.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

Betsy J. Brady

Attachment
cc: T. Power

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AT&T/MEDIA ONE MERGER BENEFITS

Combining the complementary assets of AT&T and MediaOne will create the first large-scale competitive alternative to the local telephone monopolies in MediaOne's service areas.

- **The AT&T brand will significantly increase the success of MediaOne's telephony offer.** MediaOne's telephone penetration rate was only about *3 percent* at the end of last year, and it projects penetration of 10 percent by 2002. By combining with AT&T, MediaOne can expect penetration of rates of two to three times higher – up to *30 percent* – in 2002.

- The enhanced competitiveness of MediaOne's telephony offering will mean **lower prices, improved quality and increased innovation** -- regardless of whether consumers choose MediaOne as their local carrier or remain with the incumbent.

- The **benefit to consumers** from lower prices alone has been estimated at **$600 million per year**.

- Access to MediaOne's upgraded cable network and its hard-won expertise in offering cable telephony will enable **AT&T to accelerate its own local telephony deployment**.

The merger of AT&T and MediaOne will also allow the combined entity to gain substantial economies of scale, scope and clustering.

- **Clustering.** MediaOne' systems in New England, Atlanta, Pompano and Jacksonville, Florida, and the Sacramento area are adjacent or close to existing AT&T cable systems.

- **Cost Savings.** Through bulk purchases alone, the cost of network interface units for the MediaOne systems would be **as much as 65 percent lower**, on a per line basis, than the prices MediaOne is currently paying.

- **Scale Economies.** 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.

COMBINING AT&T's AND MEDIA ONE's COMPLEMENTARY ASSETS WILL SPEED TELEPHONY DEPLOYMENT

The combined assets of AT&T and MediaOne will enable the merged entity to achieve telephone penetration faster and deeper than AT&T or MediaOne could accomplish on its own. Only the merged entity offers the prospect of a real, near-term competitive threat sufficient to provoke meaningful competitive responses from incumbent carriers

Media One brings --

- an **upgraded cable network serving millions** of households, capable of providing high speed data to 75 percent of subscribers and telephone service to half of them by year end 2000;
- **technical expertise** in deploying circuit-switched local telephony services over cable.

AT&T brings --

- an unequalled **brand name and reputation** as a reliable provider of telecommunications services;
- experience and resources in **marketing and customer care**;
- **experience in obtaining interconnection** and other facilities and services from incumbent LECs;
- **existing switches and facilities** in MediaOne's service areas that will complement MediaOne's existing cable facilities; and
- a head start in developing and deploying **IP telephony and digital cable**.

The public will benefit from the creation of a new entity that "has incentives to expand its operations and provide facilities-based competition in the local exchange and exchange access markets, and will be able to do so more quickly than either party alone." AT&T-TCI Merger Order at ¶ 147.

INCREASED, EFFECTIVE FACILITIES-BASED COMPETITION

Combining the complementary assets of AT&T and MediaOne will create the first large-scale facilities-based competitive alternative to the large incumbent local telephone monopolists in MediaOne's service areas.

- MediaOne has been only modestly successful in penetrating local telephone markets. **MediaOne's penetration rate was only about 3 percent** at the end of last year – only about 3 of every 100 potential customers have signed up for its telephone service.

- Surveys show a **consumer reluctance to purchase telephony services from a traditional cable company**, even a well-managed operator like MediaOne. In a brand study that measured other local telephone service brands against an AT&T standard of "100," MediaOne registered only "5".

- When MediaOne launched phone service in Atlanta, **Bell South raised prices**!

The mere announcement of the merger has yielded competitive benefits for consumers.

- In response to the merger announcement, **SBC initiated a bundled offering** of video, wireless, local exchange and Internet access service in Fremont, California and Dallas, Texas – the two cities where AT&T was offering market trials of its cable telephony service.

- The threat that the combined entity poses to SBC's local monopoly has caused SBC to re-engineer its entire network through its **$6 billion Project Pronto**, designed to bring high-speed DSL service to 80 percent of its customers by the end of 2002.

The actual merger will provide far more substantial benefits in the form of facilities-based local competition. It will also serve as spur to incumbent providers to offer their own new services and service bundles.

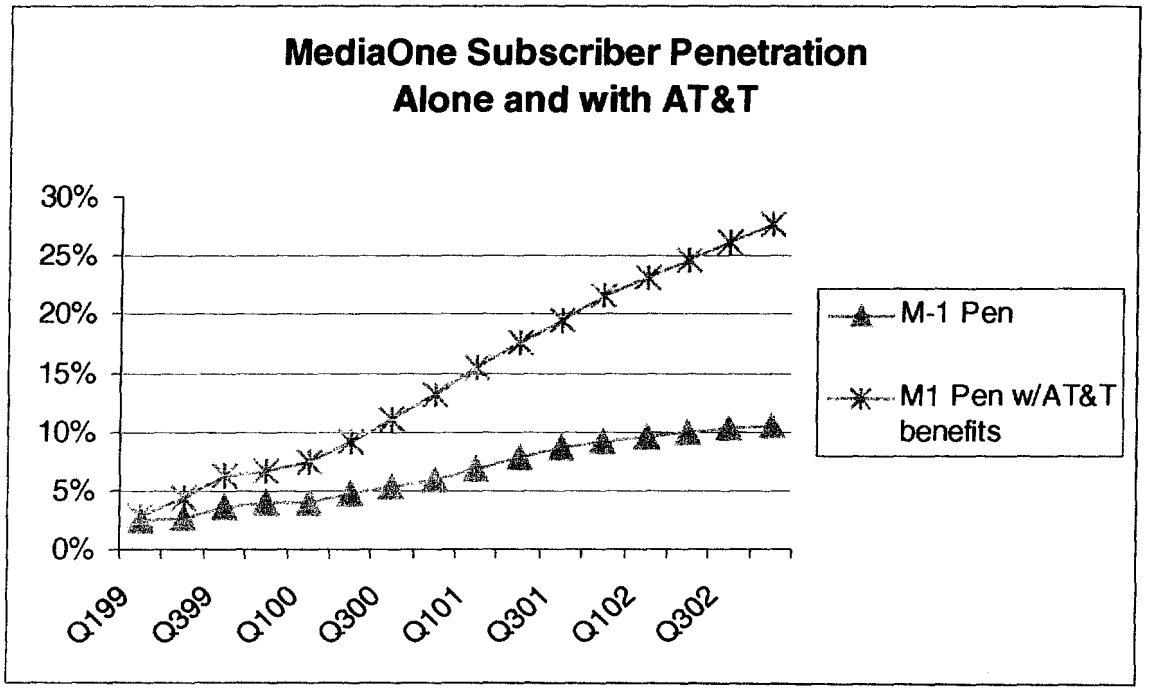
ACCELERATED PENETRATION OF CABLE TELEPHONE SERVICE

MediaOne projects that *10 percent* of its telephone-ready homes will subscribe to its telephone service by the end of 2002, absent the merger.

AT&T's cable telephone penetration, by contrast, is growing by 1 percent per month. In only six months of active marketing, AT&T has almost surpassed the penetration rate it took MediaOne more than two years to achieve.

Applying AT&T's growth rate to MediaOne's base of telephone ready homes – to reflect the addition of AT&T's assets to MediaOne's existing marketing efforts - AT&T estimates that **telephone penetration in MediaOne markets would be *30 percent* by the end of 2002**.

The chart below depicts this increased penetration.



ECONOMIES OF SCOPE AND SCALE

- **Expanded footprint will reduce the unit costs of service.** Post-merger, the merger entity will be able to obtain **volume discounts** that could reduce the costs of network interface equipment by **as much as 65 percent**. Volume discounts available to the combined entity will cut the prices MediaOne currently pays for SONET and switches, HFC telephony equipment, and fiber by **5 to 10 percent or more**.

- **Scale efficiencies will help reduce the costs of telephony deployment.** 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**.

- **Scale economies will increase quality of inputs.** The rollout of cable telephony over the expanded footprint of the merger entities provide a powerful **incentive for major equipment vendors to accelerate their development** of more powerful and economical advanced services equipment.

- **New and existing services can share facilities.** Cable video services and new services can share the same cable, conduit, trenches, and other support structure for outside plant, creating scope economies.

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

MediaOne	AT&T/TCI
New England	North Central Connecticut
Atlanta	Central and Northern Alabama
Pompano, FL	Dade County, FL
Jacksonville	North Central Florida
Sacramento Area	Sacramento/San Francisco Area