



California Public Utilities Commission

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News Release

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PUC Regulators Recommend Approval Of Telecom Mergers; Approval Conditioned On Customers' Right To 'Stand-Alone DSL,' Addressing 'Digital Divide'

SAN FRANCISCO, October 19, 2005 - California Public Utilities Commission (PUC) President Michael R. Peevey and Commissioner Susan P. Kennedy today issued joint preliminary decisions approving the SBC-AT&T and Verizon-MCI mergers. The Proposed Decisions, which must be voted on by the full Commission after a 30-day public comment period, make approval of the mergers conditioned upon SBC and Verizon offering what is known as "stand-alone DSL." The Proposed Decisions also require both merged companies to significantly increase charitable contributions aimed at ensuring that broadband and advanced telecommunication services reach underserved communities in California.

"The Attorney General determined that, because of the rapid and irreversible decline in the long distance market and changes occurring in the industry, the impact that these mergers will have on competition in California will be 'minimal'," said President Peevey. "These Proposed Decisions concur with the Attorney General's opinion based on extensive evidence in the record. Additionally, in conjunction with these mergers, this Commission will work with SBC and Verizon to ensure that rural and underserved communities in California have access to state-of-the-art broadband technologies such as telemedicine and online education," President Peevey said.

The Proposed Decisions review the Attorney General's detailed analysis in each affected market in California, including mass market residential and small business customers, medium and large business customers, "special access" wholesale services (high capacity lines that transport calls between calling areas), and Internet backbone services. The only mitigation measure recommended by the Attorney General and included in the proposed decisions involves SBC's "special access" lines, in which the Attorney General recommended a freeze on wholesale rates for one year.

As a condition of approving both mergers, the Commission would require SBC and Verizon to stop forcing customers to maintain traditional local phone service as a condition of accessing DSL. This provision, known as “stand-alone DSL”, would allow a customer to turn off their regular home phone service and use a wireless or an Internet phone service such as Skype if they choose, without losing their high-speed DSL service.

“Customers should be able to choose alternative phone service providers without losing access to broadband,” President Peevey said. “It’s a false choice to say a customer can buy any phone service they want if they are forced to buy phone service from SBC in order to get DSL.”

Commissioner Kennedy added, “Having a real choice is especially important as the industry consolidates and moves toward new technologies.”

Increased Charitable Contributions to Underserved Communities

The Proposed Decisions also accept a negotiated agreement between both companies and organizations representing low-income and underserved communities to substantially increase corporate philanthropy in California. As part of an agreement with Greenlining Institute and Latino Issues Forum, SBC and Verizon agreed to increase corporate philanthropy by \$47 million and \$20 million, respectively, over five years and to focus those contributions on low-income and underserved communities. Both companies also agreed to increase supplier diversity goals and to provide technical assistance to minority businesses and other underserved communities.

Broadband Deployment: California Emerging Technology Fund

As a condition of approving the mergers, the Commission also required both companies to contribute a combined total of \$60 million to an infrastructure fund for emerging broadband technologies. The California Emerging Technology Fund (CETF) would be established by the Commission as an independent non-profit entity that would focus on building broadband networks in areas with limited access to high-speed Internet service. The Commission established a similar fund for emerging energy technologies (The California Clean Energy Fund) as a condition of approving the PG&E reorganization plan in 2003.

CETF funds would be used to attract matching funds from other non-profit organizations, corporations, and government entities. It is anticipated that the initial endowment of \$60 million (\$45 from SBC and \$15 from Verizon) would be matched with funds from other sources to reach a total goal of \$100 million over five years. The purpose of the CETF is to fund deployment of broadband facilities in underserved communities, defined as communities without broadband service, communities with access to only one broadband service provider other than satellite, or

below average broadband adoption rates. Communities with below average adoption rates primarily include low-income households, ethnic minority communities, disabled citizens, seniors, small businesses, and rural or high-cost geographic areas. The CETF would also focus on deployment of broadband facilities to bring critical advanced services to high cost and rural areas, such as telemedicine and online education.

“This Commission is committed to 100 percent access in the next five years,” President Peevey said. Commissioner Kennedy added, “This fund is aimed at building those last mile connections that are the hardest to reach, and tend to be uneconomical for the private sector to serve. It won’t replace private sector investment – it will supplement it. With the right combination of funding, we can bring key services such as telemedicine to the far reaches of the state.”

The Proposed Decisions state that it is the intent of the Commission that broadband facilities funded by the CETF would be owned and operated by private corporations, non-governmental organizations (such as universities or health facilities), or local governments. Any remuneration for CETF facilities transferred to other entities would be returned to the CETF fund for use in future projects.

The Final Decisions for both mergers are scheduled to be voted on by the full Commission on November 18th, after conclusion of a 30-day public comment period. A third Proposed Decision in the SBC merger, issued by Administrative Law Judge (ALJ) Thomas Pulsifer, was also issued for public comment today. The ALJ’s proposal also approves the SBC merger but with several added conditions.

The Commissioner Kennedy/President Peevey Verizon-MCI Proposed Decision is on our website at http://www.cpuc.ca.gov/word_pdf/COMMENT_DECISION/50452.doc

The SBC-ATT alternate Proposed Decision of President Peevey/Commissioner Kennedy is on our website at http://www.cpuc.ca.gov/word_pdf/COMMENT_DECISION/50438.doc

The Proposed Decision on SBC-ATT of ALJ Pulsifer is on our website at http://www.cpuc.ca.gov/word_pdf/COMMENT_DECISION/50434.doc

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